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**U.S. Department of Housing and Urban Development
Office of the Inspector General**

Semiannual Report to the Congress

For the Period Ending March 31, 1995

In Memoriam

Paul Gregory Broxterman

1952-1995

Special Agent

Office of the Inspector General

Department of Housing and Urban Development

**A life of dedication to family and country
brought to a tragic end by
the bombing of the Federal Building,
Oklahoma City, Oklahoma**

INSPECTOR GENERAL'S MESSAGE

This report reflects the priorities that are guiding the work of the HUD OIG, and, we believe, maximizing our contribution to bringing about positive change in the integrity, efficiency, and effectiveness of HUD operations.

The OIG is committed to assisting Secretary Cisneros and the Congress in devising a reinvention plan for HUD that serves the interests of poor people needing housing assistance, as well as the interests of the taxpayers. For years, the OIG has been diligently reporting that HUD was not serving either of these clients well. The reinvention process is an unparalleled opportunity for HUD to get its house in order. With that in mind, Chapter One of this Report describes OIG efforts in support of the reinvention effort; comments on HUD's *Reinvention Blueprint*; and recommends near term statutory and administrative actions to improve HUD program execution while the sweeping changes envisioned by the *Blueprint* are being debated.

Chapter Two is a progress report on Operation Safe Home, the OIG's long-term commitment to combat violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in insured multifamily housing. Our strategy, leveraging scarce OIG resources to bring about a stronger governmental focus on these crimes, is working, as evidenced by the results achieved thus far.

Despite our resource commitment to and focus on HUD reinvention and Operation Safe Home, the OIG maintained a broad, balanced audit and investigative program covering HUD operations. Chapter Three provides details of significant OIG audits and investigations.

It is important to recognize that OIG downsizing will require future workload adjustments in this coverage. We will continue seeking mechanisms apart from OIG audits and investigations to provide assurance of integrity, efficiency, and effectiveness; and we will increasingly base our decisions to conduct audits and investigations on the significance of the issues and the OIG's ability to bring about real change.

The constant that underlies all OIG priorities is our commitment to assisting the Secretary and the Congress in improving HUD operations. We appreciate the many opportunities given us during these past 6 months to provide such assistance.

Susan Gaffney
Inspector General

Reporting Requirements

The specific reporting requirements as prescribed by the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, are listed below.

<i>Source/Requirement</i>	<i>Page</i>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	Pages 1-17, 33-49
Section 5(a)(1)-description of significant problems, abuses and deficiencies relating to the administration of programs and operations of the Department.	Pages 1-49
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses and deficiencies.	Pages 33-49
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Reports on which corrective action has not been completed.	Appendix 2, Table B
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	Pages 19-49
Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	No instances
Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 1
Section 5(a)(7)-summary of each particularly significant report.	Pages 33-49
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 2, Table C
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 2, Table D
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 2, Table A
Section 5(a)(11)-description and explanation of the reasons for any significant revised management decision made during the reporting period.	None
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	None

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Appendix 3 — Profile of Performance



HUD Program Design and Execution Issues



Over the past 6 months, the OIG's top priority has been to assist Secretary Cisneros and the Congress in addressing major HUD program design and execution issues. Our recent efforts have included:

- Issuance of the December 1994 report on *Opportunities for Terminating, Consolidating and Restructuring HUD Programs*;
- Advice and counsel to the Secretary and his Principal Staff on the development of HUD's *Reinvention Blueprint* proposal and corresponding legislative specifications;
- Continuing focus on HUD's progress against the top 10 management problems, including analysis of how these areas are impacted by reinvention proposals; and
- Support and testimony for four Congressional Oversight Committee hearings on HUD problems and reinvention needs.

OIG perspectives on major HUD program design and execution issues are summarized in this chapter.

Reinvention – Big Picture Needs and Options

In late September 1994, Secretary Cisneros asked the OIG to undertake a study of opportunities for streamlining HUD's program structure. The OIG's objective was to provide the Secretary with program elimination, consolidation and/or restructuring options that could improve HUD's pursuit of its core housing and community development mission. Our December 1994 report on *Opportunities for Terminating, Consolidating and Restructuring HUD Programs* identified 240 distinct program activities, and provided 34 major change options, the most drastic of which would result in only 7 programs. The following postulates served as the underlying bases for the 34 program elimination, consolidation and restructuring options.

- Budget and capacity limits require elimination of all but core housing and community development programs.
- Program consolidations are needed to alleviate administrative burdens on HUD and its program partners.
- Comprehensive market analysis and community planning are key to better allocating scarce resources to highest needs.
- Greater local program flexibility and decision making are needed to better address local program needs.
- Local performance incentives are needed to strengthen community commitment, accountability and results.
- Administrative resources need to be better targeted to improve problem program performers and program results.

Examination of programs against these postulates led the OIG to conclude that many programs warrant serious consideration of elimination, consolidation or restructuring, because they fall into one or more of the following categories.

- Small dollar, categorical grant programs, which have high administrative burdens, are poorly targeted to relative need, and reach only a small portion of the eligible universe of potential participants;
- Social service programs, which overlap with the core missions of other agencies and are generally beyond HUD's capacity to effectively administer;
- Heavily regulated programs, which are difficult to administer and lack flexibility to tailor local decisions on the best use of limited program resources in addressing local needs; and
- Multiple programs with similar objectives, which promote separate federal and local bureaucracies and detract from overall program performance and results.

Chart I at the end of this chapter summarizes the program change options developed by the OIG, and lists major issues that need to be addressed in the design and implementation of any of the options.

These reported change options served as the OIG's primary input to the formulation of the *Reinvention Blueprint* of December 1994. The ultimate program structure changes and goals of the *Reinvention Blueprint* are similar in some respects to the most drastic of the OIG options.



By 1999, the *Reinvention Blueprint* calls for three flexible, performance-based funds (a Housing Certificates Fund for Families and Individuals, an Affordable Housing Fund, and a Community Opportunity Fund); the conversion of separate funding for public housing agencies to rental assistance for residents, who would be given the choice to stay where they are or move to apartments in the private rental market; and the transformation of Federal Housing Administration (FHA) into a government owned enterprise, with a major restructuring of its multifamily housing portfolio.

Transitional steps for getting to the proposed new program structure -- which are outlined in the *Reinvention Blueprint* for FYs 1996, 1997, and 1998 -- correspond to some of the other less drastic change options reported in the OIG's study.

As a continuation of OIG participation in the Reinvention effort, the IG testified before HUD's Congressional Oversight Committees on the following four occasions:

- January 19, 1995, before the Subcommittee on VA, HUD and Independent Agencies, Committee on Appropriations, United States Senate;
- January 24, 1995, before the Subcommittee on VA, HUD and Independent Agencies, Committee on Appropriations, United States House of Representatives;
- February 22, 1995, before the Subcommittee on Human Resources and Intergovernmental Relations, Committee on Government Reform and Oversight, United States House of Representatives; and
- March 14, 1995, before the Subcommittees on Housing Opportunities and Community Development, and HUD Oversight and Structure, Committee on Banking, Housing and Urban Affairs, United States Senate.

In this testimony, the IG's general message was that the *Reinvention Blueprint* is a bold step in the right direction. However, the IG cautioned the Congress as follows:

- First, the *Reinvention Blueprint* and its specifications did not yet contain all the necessary supporting facts and details;
- Second, the agency is very complicated with a myriad of programs, constituencies and oftentimes competing priorities. It has enormous assets and liabilities, and touches the lives of millions of citizens. Some parts of the *Reinvention Blueprint* are straightforward, relatively non-controversial, and relatively easy to accomplish. Other parts raise huge policy and financial issues, and they can be expected to be controversial and difficult to carry out; and
- Third, HUD suffers from serious deficiencies in its administrative resources and management systems, as well as a lack of strong and disciplined management leadership. Although a 4,400 person staff cut is proposed along with the *Reinvention Blueprint*, there has been no analysis to provide a clear relationship between program restructuring plans and the proposed staffing cuts. Arbitrary cuts in salaries and expense activity have proven to be "penny-wise and pound foolish," when related to the impact on the significant financial programs and risks of HUD.

All of these factors will bear on the Department's ability to carry out the *Reinvention Blueprint*, particularly during the critical transition years. With these cautions in mind, the OIG has urged the Congress to seek further details and analysis on any major restructuring proposals, and to consider immediate, interim improvements to existing program structure. Our suggestions for immediate statutory and administrative changes to improve HUD program execution are discussed in the next section of this chapter.

Existing HUD Program Execution Problems

Since March 1992, the OIG has been reporting to the Congress on HUD's progress in correcting its top 10 management problem issues. Despite widespread agreement on the nature of these problems, substantive progress in improving the delivery of the programs adversely impacted by them has been limited. The OIG attributes this in part to a tendency — by HUD management, the Office of Management and Budget (OMB), and the Congress — to disassociate program policy and



structure decisions from decisions on salaries and expense budget and operating structure.

Improvements in management functions, such as resource management, data systems, management controls and new program implementation, are critical to improving overall program execution. However, these management activities are too often considered the province of the Assistant Secretary for Administration, Chief Financial Officer, or Inspector General — rather than the responsibility of the principal program heads, whose personal attention and support are necessary for any real, sustained improvement in program execution. While HUD has made progress in improving its management environment through the establishment of a Strategic Performance System, a Management Committee, a Technology Investment Board, an Information Strategy Planning Process, a Training Academy, and Resource Management Tools, HUD's principal program heads need to focus on using these management processes as a means to bring about substantive improvements in program execution. To underline the involvement, commitment and accountability needed on the part of HUD program managers, the OIG is changing its oversight focus to include the four crosscutting management issues as part of the five program execution issues (see Chart II at the end of this chapter). In doing so, the OIG hopes to more clearly make the case that the principal program heads need to assume lead responsibility for improvement of their program execution, including fulfilling the critical resource management, data system, management control, and new program implementation requirements of their respective program areas.

One of the OIG's original top 10 management issues, controls over the Government National Mortgage Association's (GNMA) extensive reliance on contracted services, has been dropped from our Semiannual Report focus. GNMA has improved its management of the extensive contracted services supporting its program operations. While some problems remain, the OMB and Congressionally mandated staffing ceilings on GNMA present an inherent limitation on its ability to further control contracting of issuer monitoring, asset management and other essential program functions. (This issue is further discussed in relation to the GNMA FY 94 Financial Statement Audit, Report No. 95-FO-171-0002, in Chapter 3.)

The following sections of this chapter provide a summary of the OIG's current perspectives on HUD's top five program execution problems, including a description of the nature of the problem, interim actions underway or needed, and the relationship of the problem to the *Reinvention Blueprint* proposal.

MULTIFAMILY HOUSING PROGRAM EXECUTION

Since 1935, the Multifamily Housing Programs have represented a substantial government commitment to increasing and maintaining the supply of decent, safe and sanitary affordable housing for low- and moderate-income persons. The programs currently serve an estimated 1.9 million households. At the close of December 1994, the Office of Housing/Federal Housing Administration's (FHA) Multifamily Housing Mortgage Insurance and Project-Based Assistance Programs included the following activity:



	<u>Number*</u>	<u>Value/Units*</u>
Insured Activity:		
Mortgages Insured	15,284	\$ 45.4 Billion
Mortgages Held	2,244	\$ 7.3 Billion
Properties Owned	110	\$ 0.7 Billion
Properties Sold	14,800	\$ 0.3 Billion
Subsidized Projects	14,800	1.36 Million
Uninsured Activity:		
Subsidized Projects	3,760	.022 Million

*Estimates are based on FY 1994 unaudited activities, except for Subsidized Projects, which are based on 1993 estimates. The insured/subsidized project estimates include Section 202 direct loan projects.

Substantial portions of the multifamily housing portfolio are physically and/or financially troubled, and/or are receiving excessive subsidies. To address this growing problem, management needs to obtain better project information, enhance its administrative capacity, strengthen its program enforcement culture, and seek greater programmatic and funding flexibility for making sound cost-benefit decisions that are in the best interests of the low- and moderate-income tenants they are intended to serve.

To illustrate the significance of this problem, FHA set its 1993 mortgage insurance loss reserve at \$10.3 billion, in anticipation of future mortgage defaults and claims against the fund. Of the \$7.3 billion of mortgage notes held by HUD, over \$6 billion were non-performing. In addition, billions of dollars of long-term Section 8 Project-Based Assistance Program funding has been used to shore up insured projects to avoid claims on the fund. In many cases, Section 8 Project-Based Assistance Programs support project rent structures that are well in excess of prevailing market rents.

The growing cost of project-based assistance programs is a matter of great concern to the Administration and the Congress. Decisions on the renewal of project-based assistance contracts, covering over 600,000 housing units, are due over the next several years. In addition, there are over 400,000 insured housing units where owners have the right to prepay their mortgage and leave the program, unless HUD opts to preserve those low- and moderate-income housing units under costly existing preservation program provisions.

In general, we attribute this current state of Multifamily Housing Programs to:

- An inability — by HUD management, OMB and the Congress — to maintain a proper focus on and balance among the often conflicting mission goals of providing decent, safe and sanitary housing for low- and moderate-income persons; increasing and maintaining the supply of affordable housing in a cost efficient manner; and protecting the financial interests of the FHA fund.
- Varying program design flaws which have often served to inflate the initial project development costs insured by HUD, or the rent structure subsidized; limit project owner equity or investment in the project; provide up-front owner tax breaks and other program incentives, with no back-end incentives for project maintenance in later years; eliminate competitive rental market forces to trap tenants in poorly maintained projects; and shield project owners from personal accountability and liability for project performance.
- Poor program execution, which is in need of strategic and operating plans for the optimum use of available administrative resources in the pursuit of mission objectives; readily accessible and reliable information on project financial, physical, market and ownership conditions; strong program enforcement processes that promote early and decisive actions to address project weaknesses; and greater budgetary



and programmatic flexibility to pursue mission objectives in a businesslike manner.

The *Reinvention Blueprint* proposes to address these problems by establishing FHA as a separate Federal Housing Corporation (FHC), and by restructuring the multifamily portfolio. However, details on these proposals are still subject to development and change within HUD. Further, a major unknown in any across-the-board program changes — such as not preserving all insured projects, not renewing all project-based assistance contracts, or adjusting all project mortgages to market value — is the impact such actions would have on the current tenants of particular projects. For some projects and markets, the impact may be minimal. In markets with a shortage of low- and moderate-income rental housing, there could be significant problems in terms of displaced tenants and the lack of alternative sources of affordable housing, as well as losses to the FHA insurance fund.

Another factor in considering across-the-board remedies is that the various major programs differ in terms of their current costs and benefits. Projects under some of the older programs, such as the Section 236 and Below Market Interest Rate Programs, generally operate at below market rates. Newer programs, such as the Section 8 New Construction/Substantial Rehabilitation Program activity of the 1970's and 1980's, generally operate at above market rates. From a program cost perspective, consideration should be given to different solutions for the different segments of the multifamily portfolio.

While HUD and the Congress deliberate over major reform, the OIG believes the following interim statutory and administrative actions should be taken to improve program execution.

Statutory Changes

The Congress should change existing statutes to provide more flexibility in program execution and reduce costs. Specifically, the OIG recommends:

- Repeal of the Loan Management Set-Aside Program to discontinue the "propping up" of distressed properties;
- Provision of authority to convert project-based assistance to tenant-based assistance when it is deemed necessary to better serve tenant interests;
- Provision of authority to discontinue subsidizing rents far in excess of rents for comparable unassisted units in the same locality;
- Repeal of the Title 2 and Title 6 Prepayment/Preservation Programs, and replacement with a more reasoned and balanced approach for preserving/providing housing for tenants of those properties;
- Repeal of fixed requirements to subsidize projects sold through property disposition activity; and
- Revision of program enforcement and bankruptcy laws that serve to protect bad project owners over HUD program interests, such as the automatic stay provisions of the Bankruptcy Code when applied to HUD's multifamily program activity.

Administrative Changes

Over the past several years, management has put together various strategies and plans for improving the asset management, information systems, program enforcement and other aspects of its program execution. These plans have often been disjointed, poorly supported and subject to continuous change without substantive implementation. A comprehensive program improvement strategy is needed that lays out how the Office of Housing will use its existing capacity to improve its program execution. Such a strategy should provide:

- Increased, aggressive action to fully utilize existing staffing, program resources and enforcement tools to improve living conditions for tenants in the worst projects, similar to the multifamily project "Swat Team" efforts initiated in the past 6 months;
- A requirement that all decisions on further assistance to multifamily properties be based on comprehensive physical, financial and market analyses of the projects, and that assistance be continued to projects in terms that maximize benefits to tenants, reduce costs, and insure the projects' viability as a



source of decent, safe and sanitary affordable low- and moderate-income housing;

- Individual field office operating strategies for effectively deploying available resources to address priorities such as troubled projects, Section 8 subsidy contract renewal and rent rate decisions, Prepayment/Preservation Program decisions, and critical information processing requirements;
- A plan to acquire contracted services to augment HUD's limited capacity for carrying out critical elements of the Multifamily Housing Program Improvement Strategy;
- A plan to meet staff development needs;
- A plan to meet critical program information systems needs, including the pursuit of viable interim means of providing critical program information for the Multifamily and Project-Based Assistance Programs, while longer-term systems development efforts are pursued;
- An end to the unwarranted Section 8 contract rent increases, either through rent comparability reviews or other means, such as a cost-based measure being considered by HUD;
- Continuation of improved mortgage note sales efforts, as a means of alleviating the servicing burdens, and reenergizing project owners and managers;
- Changes in the methods of compensating property management agents, to provide incentives for improved performance; and
- Aggressive use of available program enforcement tools to deter and sanction instances of gross mismanagement of insured and assisted multifamily properties.

These administrative actions, coupled with the above suggested statutory changes by the Congress, would go a long way in bringing about near term improvements in program execution.

PUBLIC HOUSING PROGRAM EXECUTION

Our Nation's investment in public housing is substantial, with an estimated replacement value of approximately \$90 billion. The 3,200 local Public Housing Agencies (PHAs) supported by HUD's operating and capital funding, currently serve about 1.3 million lower-income households. About \$7 billion was appropriated to support public housing last year. The vast majority of PHAs provide decent, safe and sanitary housing with HUD's funding. However, HUD has been largely ineffective in addressing the longstanding management problems and poor living conditions in troubled PHAs, particularly those in large urban centers.

As of January 1995, the Public Housing Management Assessment Program had designated 90 PHAs as being in "troubled status." While fewer than 3 percent of the total number are designated as troubled, these PHAs manage over 215,000 housing units, or 17 percent of the public housing stock, and receive a relatively large proportion of HUD's operating and capital subsidies. Some of the larger troubled PHAs include those in Chicago, Philadelphia, New Orleans, the District of Columbia, Detroit, Atlanta, and Puerto Rico. Many of these have a long pattern of uncorrected problems, most of which have been chronicled in prior audits and OIG Semiannual Reports to the Congress. There are other large- and medium-sized PHAs in a "marginally troubled" status, too.

We attribute HUD's ineffectiveness to a combination of policy shifts, statutory and political barriers, and the need to better focus and utilize HUD administrative resources.

The Public Housing Program, as originally conceived by its Congressional authors in 1937, was intended to be a temporary way station for working low-income families to enable them to recover during times of temporary financial distress. The costs of operating public housing were borne by local housing agencies, primarily from their rental revenue. In contrast, the program has now become near-permanent housing for mostly very low-income, single-parent families on welfare, with little or no working skills, work experience, or work prospects. Local



agencies are now largely dependent upon operating subsidies, with some receiving as much as 80 percent of their operating revenue from HUD. This situation has been brought about by various statutory changes that have increasingly reserved public housing for poorer and more disadvantaged households.

Moreover, excessive regulation and micromanagement of public housing have reduced local flexibility, contributed to the inefficiency of many PHAs, and caused unnecessary costs to be incurred. Despite the maze of regulatory control, however, HUD generally lacks the political support and management will to exercise its ultimate authority and responsibility for addressing the most egregious instances of deplorable living conditions. In reforming public housing, the Congress and HUD should reassess the federal role in public housing, and devise more effective ways to assist PHAs and localities in improving their performance in administering public housing and serving the needs of the urban poor.

The *Reinvention Blueprint* proposes a "vouchering-out" of all public housing to allow competitive market forces to better serve the housing needs of existing tenants. The proposal first calls for a transition period which would attempt to put existing public housing in a more competitive market condition. We believe the feasibility, impact and costs of this proposal require further study. Much of the existing public housing stock operates to provide lower-income households with decent housing at below market rates. Further analysis is needed to ascertain the: (1) net cost impact of giving market rate housing certificates to all residents; (2) availability of affordable housing in the private market to accommodate certificate holders; and (3) impact of this proposal on the Nation's considerable investment in the stock and operations of the existing PHAs.

In the interim, we believe the following statutory and administrative actions should be taken to improve program execution.

Statutory Changes

The Congress should change existing statutes to both relieve HUD and PHAs from requirements that hinder the effective delivery of existing programs, and better enable HUD to ensure the proper pursuit of program objectives. Specifically:

- PHAs should be relieved of strict tenant preference rules and rent setting and admission policies as a means to increase both the rental income stream and the resident income mix at projects. This would serve to improve project social conditions and reduce the need for operating subsidies. (HUD has already moved to provide more flexibility through changes in its tenant preference rules.)
- PHAs should be relieved from the requirement that every single unit removed from the stock needs to be replaced on a "one for one" basis. This current restriction creates numerous situations where otherwise more desirable and cost effective measures, such as demolishing nonviable or badly deteriorated units, are deferred because replacement units are not possible or readily available.
- HUD needs enhanced statutory authority to take over troubled PHAs, which would enable it to bypass court ordered receiverships and install its own form of receivership in the event of an imminent or existing threat to the health, safety or well-being of residents. Such authority should include the ability to abrogate state or local laws or contracts governing operations when PHAs are in substantial breach of their Annual Contributions Contract, as well as the ability to take possession, demolish, transfer or sell the housing stock of such PHAs.
- HUD should also be allowed to discontinue paying operating subsidies for long-term vacant units. Approximately 112,000 units are vacant nationwide, and many are boarded up with little hope of getting on-line in the near future. Yet payments, estimated at \$235 million a year in operating subsidies on these vacant units, continue, serving as a disincentive to good management. Following a 1992 Housing Act requirement for negotiated rulemaking on this issue, HUD is in the process of finalizing rule changes to place limits on subsidies to long-term vacant units.



Administrative Changes

The Office of Public and Indian Housing (PIH) needs to step up its plans for improving its program execution. The OIG believes the priorities should be:

- Aggressive and decisive action in dealing with large troubled PHAs. PIH should assess the current status of large troubled PHAs, as well as their past history. Sanctions should be taken immediately, including HUD-initiated receivership and the use of private management companies, where warranted. Unobligated funding should be recaptured when there is good cause to believe that the funds will be misspent or will not directly benefit the residents. If feasible, project-based assistance to certain troubled developments should be discontinued, with residents relocated to other, decent public housing or given portable certificates or vouchers to relocate to decent housing in the private sector.
- Systematic assessment of public housing stock, both physically and operationally, as a basis for determining the most cost effective way of assisting developments and their tenants now and in the future. On the basis of these assessments, HUD should determine if certain developments should be retained or deprogrammed, through demolition, disposition, or vouchering out. Planned actions should also be completed to improve the Public Housing Management Assessment Program.
- Aggressive deregulation of non-troubled public housing, particularly with respect to tenant eligibility, applicant screening, admissions, resident mix, household-income determinations, lease/grievance procedures, property standards, project development, and utility allowances.
- Further program regulatory streamlining and simplification to provide greater local flexibility along with improved performance measurement and incentives to enhance local accountability.
- Strengthened welfare-to-work efforts in public housing, to facilitate the transformation of public housing back to transitional housing.

Management needs to fully utilize and test its staff capacity for handling the above program tasks by setting and adhering to aggressive program performance goals for all field and headquarters operating units. In addition, management needs to develop and implement a procurement plan for acquiring the outside expertise and resources needed to assist in the successful implementation of the above actions.

SECTION 8 TENANT-BASED ASSISTANCE PROGRAM EXECUTION

Housing Certificate and Voucher Programs are considered "tenant-based" programs because the participating families receive the assistance. PHAs issue housing certificates or vouchers to eligible low-income families, who select their own rental units, which are subject to housing quality standards. The programs provide a rental subsidy equal to the difference between 30 percent of an eligible tenant's income and an established rent or payment standard. The programs currently serve an estimated 1.4 million low-income households. Approximately \$6.5 billion was appropriated to meet the tenant-based assistance contract obligations and renewal needs last year.

Ten years ago, the Section 8 Program budgeting and accounting systems were recognized as a material management control weakness. For the past 3 years, the OIG has been reporting to the Congress that HUD still does not have an adequate system for tracking and controlling tens of billions of dollars of long-term subsidy commitments. As further discussed in the Chapter 3 summary of the recent *Audit of Section 8 Budgeting and Accounting* (Report No. 95-FO-103-0001), management still needs to complete action to develop adequate budget and accounting support for its tenant-based and project-based assistance programs.

In 1990, HUD initiated a major single integrated systems development project to support all of its Section 8 program activity. The integrated systems development effort lacked strong leadership, direction and support from the two major program organization users. Conflicting views on approach, as well as a lack of substantive progress towards improving program operations, led to a 1993 decision to split the systems development effort into two



parts, along the lines of its project-based and tenant-based assistance programs. Project-based assistance program problems were discussed in the Multifamily Housing Program Execution section above.

The PIH approach to resolving its systems deficiencies is to modify an existing commercial software package — known as the Federal Financial System — rather than to develop a new in-house system. The project is known as HUDCAPS. The conceptual design envisions an integrated system to support PIH's application and contract processing, budget formulation, funds allocation and control, payment processing, housing authority monitoring, management information needs, and interaction with housing authorities.

Work on the project began in July 1993. Progress has been made, including the significant advance of being able to create standardized contracts through the automated system. The budget module of HUDCAPS is scheduled to be completely operational by the end of April 1995. It has been pilot tested and is currently on-line at the Minnesota State Office. Nationwide implementation is anticipated by September 30, 1995. The challenge to management is to ensure the project stays to its schedule, and to provide for a full and consistent implementation and maintenance of the system as an integral part of the everyday administration of the tenant-based assistance programs.

A key element of effective management controls over tenant-based assistance programs is the verification of tenant income levels, which determine a person's basic eligibility and level of assistance. Progress on the use of computerized income matching checks with federal and state wage data bases has been very slow. Greater management initiative is needed to find effective ways for verifying tenant income.

The *Reinvention Blueprint* calls for a major expansion of its tenant-based assistance through the conversion of most of its existing public housing and project-based assistance program activity to a new Housing Certificates Fund, along with other existing tenant-based program activity. This would greatly increase the importance of improving management controls over tenant-based assistance.

Along with systems improvements needs, we also believe HUD should consider ending PHAs' monopoly on the administration of Section 8 vouchers and certificates, and open these programs to competition. This could reduce the costs of administering these programs and perhaps even result in improved program administration. Additional savings are possible through stronger efforts to perform adequate rent reasonableness determinations in setting assisted rent levels.



SINGLE FAMILY HOUSING PROGRAM EXECUTION

In the 60-year existence of the FHA, the Single Family Mortgage Insurance Programs have assisted over 21 million families to realize the American dream of homeownership. Estimates of program activity at the close of FY 1994 include:

<u>Program Activity</u>	<u>Number</u>	<u>Value</u>
Total Mortgages Insured	6,454,129	\$331.8 Billion
Total Mortgages Assigned	87,163	\$ 4.3 Billion
Total Properties Owned	25,138	\$ 2.1 Billion
Properties Sold in FY 1994	62,500	\$ 4.6 Billion

We previously reported that management's controls over its Single Family Housing Note Servicing and Property Management and Disposition Program activities were inadequate for assuring the preservation of housing and the protection of the financial interests of the FHA fund and the government. Improvements have been made over the past 5 years, and, overall, the Single Family Programs are one of HUD's better administered program areas. However, there is still room for improvement, including the need to:

- Upgrade automated systems;
- Provide for more efficient program operation through more modern, streamlined and consolidated processes;
- Improve the efficiency and effectiveness of the Mortgage Assignment Program; and
- Strengthen procurement and contract administration capacity.

Actions are underway on some of these issues. An Information Strategy Plan project was recently initiated; it needs expeditious and continuous high level support to be successful. A pilot processing center was established to consolidate all routine, location neutral single family loan origination functions previously conducted in 17 field offices. In the first 90 days of operation, the new center reportedly reduced case processing time of 5-8 days to an average of 2 days. Plans are being developed to establish other centers for a more efficient use of dwindling staff resources. In this regard, it is very important that FHA be allowed to establish the number and location of its field operating units based on programmatic needs and benefits rather than on non-programmatic grounds.

With respect to the Single Family Mortgage Assignment Program, there is still a major concern over the growing number and poor servicing of the mortgages in this portfolio. In this program, HUD pays claims on defaulted mortgages but delays foreclosure and accepts assignment of the mortgage when there are extenuating circumstances leading to default, such as a temporary job loss with reasonable expectation of recovery within a maximum period of 3 years. At the close of FY 1993, about 46 percent of the loans in the assigned portfolio remained delinquent, even though they had been in the program more than 3 years. These loans represent a substantial holding cost. HUD is attempting to implement a strategy to tighten assignment program screening criteria, and to reduce the staff burden associated with the servicing through consolidation and removal of mortgages from the portfolio.

Actions are still necessary to strengthen FHA's capacity for handling the significant procurement and contract administration needs related to the heavy outsourcing of services. This will be especially important if the *Reinvention Blueprint* proposal for establishing FHA as an independent Federal Housing Corporation (FHC) is approved, because FHA currently relies on procurement support from HUD's Office of Administration in many locations.



Indeed, much of FHA's current operations and support are interwoven with other parts of HUD, such as the Office of Administration, Office of General Counsel, and the Chief Financial Officer. Given this situation, the OIG is concerned about the *Reinvention Blueprint's* lack of detailed information on how the proposed FHC will be organized and operated.

COMMUNITY PLANNING AND DEVELOPMENT PROGRAM EXECUTION

The Office of Community Planning and Development (CPD) administers at least 50 distinct program activities for a variety of local housing, community and economic development and capacity building efforts. The largest programs are the Community Development Block Grant (CDBG), HOME Investment Partnership, and various Homeless Programs. Approximately \$7 billion of funding is received annually, and commitments for loan guarantees total about \$2 billion.

While the largest programs are a popular and valuable source of funding for most American communities, that value has been diminished by an overly complex and restrictive program delivery structure which drives up administrative burdens and does little to ensure an effective use of the funds. A series of OIG audits in the early 1990's found lax monitoring and enforcement of program requirements. Even when problems are found with local program delivery, effective sanctioning of state and local government program participants is rare.

At the outset of this Administration, the CPD management team acknowledged the problems in its existing program delivery structure and set out to change their role from *program regulator* to *community enabler*. They set their goal as making CPD programs less prescriptive and burdensome by streamlining, simplifying and coordinating various existing requirements, and providing greater flexibility and support to facilitate locally derived strategies and activities. Key elements of the strategy have included:

- Consolidating planning and application requirements for major formula programs (CDBG, HOME, Emergency Shelter Grants, and Housing Opportunities for Persons with AIDS);
- Developing an integrated disbursement and information system to better measure local program performance and strengthen local accountability;
- Proposing legislation to replace the six McKinney Act Homeless Programs with a comprehensive homeless assistance performance grant to be distributed by formula to states and localities upon approval of a comprehensive plan;
- Simplifying economic development project rules to encourage greater activity under current programs;
- Consolidating various technical assistance resources to maximize capacity building and training; and
- Streamlining HOME Program regulations and law.

Varying degrees of progress have been made in each of these areas. In essence, the *Reinvention Blueprint* proposals for CPD's programs represent a continuation and expansion of these already initiated efforts to improve program execution. We generally support these initiatives. However, we urge the Congress to assure that the forthcoming legislative proposals achieve the worthwhile objectives of:

- Consolidating the many grant programs, including the elimination of set-asides for many special interest groups;
- Providing for maximum local flexibility, control and accountability;
- Limiting HUD's role to assistance and general federal oversight in support of Congressional policy making; and
- Determining reasonable performance measures and systems for assuring that defined levels of program activity directly benefit low- and moderate-income community residents.

The key to the success of the proposed delivery structure is the ability to define adequate program performance



measures, and to build information systems and conduct sufficient surveys for accumulating and reporting on relevant performance data. CPD is just starting on this critical effort, and there is much to be done.

CPD has been developing an Integrated Disbursement Information System (DIS) on a very aggressive schedule, with some portions of the system due to be on-line by June 30, 1995. Progress has been made towards automating the consolidated grant submission and planning process. Also, grantees were provided with considerable software to track their funded activities. However, in order to meet the tight DIS project milestones, CPD, in agreement with the Office of Information Policies and Systems, is not following the prescribed Information Engineering Facility for system development. The OIG is also concerned that the hurried development will lead to reduced levels of software testing, that could result in inaccurate or disrupted disbursements of funds, or an inability to provide necessary management information. In addition, there are security issues related to public (grantee) access to HUD information systems which have not yet been resolved.

Concurrent with DIS, systems development efforts for grants management elsewhere in HUD have been initiated. Duplicative efforts should be avoided. Clearly, CPD processes more grants than the other program offices, and should take the lead in developing an integrated grants management system. The OIG believes that HUD's Management Committee and designated Chief Information Officer should direct CPD to pause development of DIS at the completion of Phase 1B. At that point, CPD should become the lead organization in developing a departmentwide grants management process in which the other program offices are internal clients of CPD. This makes even greater sense in the context of the *Reinvention Blueprint*.

The Congress must assure that adequate funding is provided for the development and maintenance of performance measurement activities and systems. The OIG supports the Department's proposal for a program funding set-aside.

In addition, we believe management must define its staffing and other resource needs under its proposed new program structure, and compare those needs with its existing capacity to identify training and other necessary actions for an effective implementation of its new structure and role.

In Conclusion

The basic structure and delivery of HUD's core housing and community development programs — which have well served millions of lower income families, and revitalized our nation's communities for over 60 years — are in need of improvement. Secretary Cisneros and his management team have initiated many positive changes toward improving HUD's program execution. However, legislative changes and support from the Congress are needed, too. Whether the Congress decides to improve the existing program structure of HUD, or to go with all or segments of the *Reinvention Blueprint*, or other alternatives, the OIG suggests that any reinvention legislation provide a 5-year moratorium on major new program legislation. This will give HUD management a reasonable opportunity to change its management systems, structure, and culture in support of improved program execution.



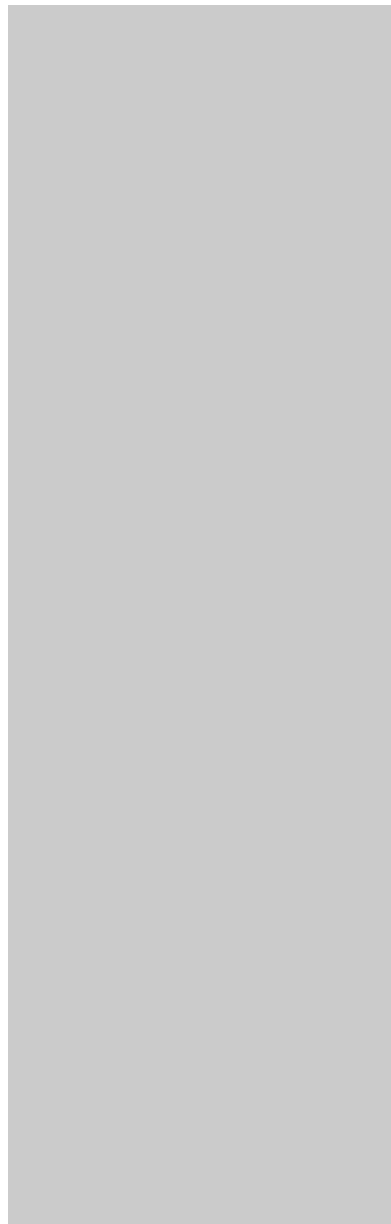
CHART I — SUMMARY OF OPTIONS AND ISSUES IN THE "OPPORTUNITIES FOR TERMINATING, CONSOLIDATING AND RESTRUCTURING HUD PROGRAMS"

COMPREHENSIVE MARKET ANALYSIS AND COMMUNITY PLANNING

CPD	HOUSING/FHA	PIH	OTHER
<p>Option 1: Four Block Grants</p> <p>1. Community Development Grants</p> <p>2. Affordable Housing Grants</p> <p>3. Homeless Grants</p> <p>4. Indian Grants</p> <p>Option 2: Three Block Grants</p> <p>1. Community Development Grants</p> <p>2. Affordable Housing Grants</p> <p>3. Indian Grants</p> <p>Option 3: Two Block Grants</p> <p>1. Community Development Grants</p> <p>2. Indian Grants</p> <p>Option 4: Targeted Revenue Sharing</p> <p>Issues:</p> <ul style="list-style-type: none"> - National Objectives - Funding Levels - Needs-Based Formula Allocations - Set-Asides - Performance Measures - Performance Data Collection - Performance Incentive Funding - Targeted Technical Assistance - Authority to Condition Grants 	<p>3 Programs:</p> <p>1. Single Family Insurance Program</p> <p>2. Multifamily Insurance Program</p> <p>3. Flexible Multifamily Preservation Program</p> <p>Program Authorities:</p> <p>One general program authority for each of the FHA SF and MF programs, with flexibility to develop needed sub-programs and instruments to serve underserved housing markets and the needs of lower-income and first-time homebuyers.</p> <p>A Flexible MF Preservation Funding Program to replace existing Flexible Subsidy, Section 8 LMSA and Project-Based Contract Renewals, as well as the Prepayment/Preservation Programs, to provide a single flexible funding source to enable HUD to perform project-by-project analyses and tailored decisions on the most cost effective way to house existing residents and preserve existing stock.</p> <p>Issues:</p> <ul style="list-style-type: none"> - Clear Mission/Objectives - Housing Policy/Standards - Market Needs/Share - Current Organization vs GOE Status - Business-like Flexibility in Program Structure, Budgeting, and Staffing - Leadership Stability - Strong Information Systems - Program Cost/Benefit Analyses - Performance Measures - Capacity/Custodial Effort Needs 	<p>PH Options:</p> <ol style="list-style-type: none"> 1. Phase-out PH Programs in Favor of Housing Block Grants to Communities 2. Single PHA Funding System 3. Single PHA Funding System Plus Capital Improvement "Backlog" Funding System 4. Single Capital Improvement/Development Funding System Plus Revised Operating Cost Funding System 5. Option 4 Plus a Capital Improvement "Backlog" Funding System 6. Single PH Funding System Plus a Single Special Needs/Services Funding Program 7. Option 6 Plus a Capital Improvement "Backlog" Funding System 8. Option 4 Plus a Single Special Needs/Services Funding Program 9. Option 5 Plus a Single Special Needs/Services Funding Program <p>Indian Programs Options:</p> <ol style="list-style-type: none"> 1. Transfer all Indian Programs to Interior 2. Single Block Grant (same as CPD option) <p>Section 8 Tenant-Based Assistance</p> <ol style="list-style-type: none"> 1. Shelter Cash Subsidy Program (Reconciled with Welfare Shelter Allowances) 2. Expand Section 8 Voucher Program 3. Restructure Section 8 as a Rental or Homeownership Program <p>Issues:</p> <ul style="list-style-type: none"> - Stock Transition Concerns - Decontrol and Deregulation - Good and Small PHAs - Flexible Stock Management - Transitional Housing Role for PH - Terminated Program Custodial Effort 	<p>FHEO Options:</p> <ol style="list-style-type: none"> 1. Retain FHEO enforcement, fund special efforts thru CPD block grants 2. Transfer enforcement to FHA/Housing, local efforts eligible under CPD block grants 3. Transfer enforcement to DOJ, with local efforts eligible under CPD block grants <p>Lead-Based Paint:</p> <ol style="list-style-type: none"> 1. Transfer issue to EPA/HHS, limit HUD role to problems in its own stock 2. Refocus HUD efforts on known problems and improved testing and abatement techniques <p>GNMA Options:</p> <ol style="list-style-type: none"> 1. Maintain existing GNMA 2. Eliminate GNMA in favor of GSE players 3. Make GNMA part of a new FHA GOE



Operation Safe Home



Operation Safe Home is a campaign to combat violent crime in public and assisted housing, fraud in the administration of public housing programs, and equity skimming in FHA insured multifamily housing. These three types of wrongdoing represent particularly high risks to HUD's programs and to the well-being of residents of public, assisted, and insured housing. The Operation Safe Home strategy is to foster aggressive enforcement action and, in the process, deter further wrongdoing.

The HUD OIG's pivotal role in Operation Safe Home entails significant departures from our traditional audit and investigative activity. Notably, Operation Safe Home is proactive rather than reactive; focuses on violent crime as well as other types of wrongdoing; involves an unprecedented level of OIG collaboration with federal, state, and local law enforcement agencies, as well as with HUD program staff, partners, and beneficiaries; and employs new methodologies, such as probes (as distinguished from audits and investigations) and direct audit and/or investigative referral of civil cases to the Department of Justice (DOJ) and the U.S. Attorneys.

While the objectives of Operation Safe Home require long-term commitment, notable progress has been made since the announcement of Operation Safe Home by the Vice President on February 4, 1994.

Combating Violent Crime in Public and Assisted Housing

The Operation Safe Home strategy for combatting violent crime in public and assisted housing entails:

- Collaboration by the OIG and federal, state, and local law enforcement agencies in law enforcement efforts targeted at public and assisted housing;
- Collaboration among the OIG, law enforcement agencies, public/assisted housing managers, and public/assisted housing residents in devising methods to prevent violent crime; and
- HUD programmatic initiatives specifically geared to preventing violent crime.

Under the aegis of Operation Safe Home, OIG Special Agents have been assigned to 98 law enforcement task forces working in public and assisted housing; 22 of these task forces were activated during this reporting period. Operation Safe Home was a catalyst for formation of 68 of the 98 task forces.

Since the inception of Operation Safe Home through the end of March 1995, task force operations have resulted in 3,769 arrests for crimes involving drugs and weapons, as well as confiscation of at least 380 weapons, including 64 assault type weapons and shotguns. The operational teams have confiscated over \$620,000 in cash, and illegal drugs with an estimated street value of at least \$2 million through seizures made incident to arrests and through service of 480 search warrants. OIG personnel have also facilitated the relocation of 131 witnesses to violent crime in public/assisted housing, and have worked with HUD and other agencies in a variety of initiatives to improve the safety and security of persons living in public and assisted housing.

LAW ENFORCEMENT TASK FORCE OPERATIONS

During this semiannual reporting period alone, law enforcement task force operations resulted in 1,978 arrests, confiscation of at least 181 weapons and \$232,000 in cash, and seizure of illegal drugs with an estimated value of at least \$577,000 (seized either incident to arrest or through service of 192 search warrants). Other assets exceeding \$2.3 million were also seized. The following examples illustrate the significance of these results for residents of public and assisted housing.

In COLUMBUS, OH, a federal grand jury returned a 185-count indictment against 41 members of a street gang,



charging them with conspiring to manufacture and sell crack cocaine in the area they controlled, which included the Windsor Terrace public housing development. Thirty-one members of the gang were immediately arrested in the joint investigation by the Bureau of Alcohol, Tobacco and Firearms(ATF), the Internal Revenue Service (IRS), OIG and the Columbus Police Department, on charges of distribution of drugs, weapons charges and money laundering. The indictments were based on a year-long investigation into drug trafficking and violent crime in the Windsor Terrace area.

In ATLANTA, GA, 14 members of a street gang were indicted by a federal grand jury for distributing narcotics in public housing developments. The joint Drug Enforcement Agency (DEA), ATF, OIG and Atlanta Police Department operation investigated a gang-controlled area which included the Dixie Hills and John Hope Homes public housing complexes. The gang was responsible for drive-by shootings, resulting in several deaths and injuries as part of their campaign to dominate the area. An AK-47 was seized in the course of the investigation.

In CHARLESTOWN, MA, the "Code of Silence" murder trial concluded in March, with guilty verdicts against all three defendants. They were convicted of over 100 counts of racketeering, conspiracy, murder for hire, drug distribution and weapons charges as part of a criminal enterprise that terrorized the residents of the Bunker Hill public housing complex and the Charlesnewtown and Mishawum Section 8 complexes. Two others pled guilty during the course of the trial. The so-called "Code of Silence" case involved acts of violence, including murder, to silence persons who were believed to be assisting law enforcement authorities. The Redrum Task Force, which conducted the 18-month investigation, was composed of the Federal Bureau of Investigation (FBI), DEA, ATF, OIG and a variety of state and local authorities. This case served as the impetus for the Operation Safe Home initiative.

In NEW ORLEANS, LA, ATF and the OIG have an ongoing federal task force focused solely within residential complexes of the Housing Authority of New Orleans. The operation, active within the Florida, Desire, Calliope, Lafitte, St. Thomas, Iberville, Magnolia and Fisher public housing developments, utilizes ongoing surveillance to intercept and disrupt criminal activity as it occurs, usually in the form of drug sales conducted in an "open air market." During this reporting period, the task force served 20 search warrants, made 302 arrests and removed 63 illegally possessed weapons from persons within Authority properties.

CHICAGO, IL, has a number of initiatives focused within Chicago Housing Authority complexes under the umbrella of the CHANGE (Chicago Housing Authority Neighborhood Gang Enforcement) Task Force. In March, 103 suspected gang members were arrested for possession of controlled substances, unlawful use of weapons and criminal trespassing in a 1-day operation of federal, state and local law enforcement agencies. In February, 62 suspected gang members were arrested during a similar operation.

In BAYAMON, PR, 31 individuals were indicted in federal court and arrested on charges of distributing cocaine and heroin in public housing and money laundering. The individuals operated a drug distribution network throughout the island, based in public housing units. Agents of the DEA, ATF, OIG and the Puerto Rico Police seized large volumes of drugs and manufacturing equipment. Further, under Asset Forfeiture proceedings, the U.S. Attorney's Office seized \$2.3 million in assets of the syndicate, including a gasoline station, 11 vehicles, bank accounts and several parcels of land.

In HARTFORD, CT, OIG Agents facilitated the creation of a special, short-term task force with Hartford Police in direct reaction to the January murders of nine individuals in developments of the Hartford Housing Authority, allegedly by warring gangs. During the 6-week, intensive law enforcement operation, 49 people, including many gang members, were arrested on a variety of drug and weapons charges, as well as on a number of outstanding felony warrants. At the conclusion of the effort, routine police patrols were increased in the immediate area in order



to maintain a high profile presence.

In QUEENS, NY, after a 6-month investigation, DEA, ATF, OIG and the New York Housing Police dismantled a drug operation with the arrest of 20 people. A drug operation controlled the Baisley housing complex of the New York City Housing Authority, netting over \$75,000 a month and terrorizing residents with random shooting incidents. Simultaneous law enforcement operations at five locations throughout NEW YORK CITY toppled the gang's control, seizing a volume of contraband, including an AK-47.

Twelve arrests were made at SAN FRANCISCO, CA Housing Authority properties by the Fugitive Recovery Enforcement Team (FRET), composed of ATF, OIG, the U.S. Marshals Service and the San Francisco Police. The project was designed to identify public housing residents for whom warrants for serious crimes were outstanding. The outstanding warrants included parole violations and possession or distribution of narcotics.

A similar project with the LOS ANGELES, CA Police in January resulted in the arrests of 12 individuals within the Nickerson Gardens complex of the Los Angeles Housing Authority. These arrests included a murder suspect, two suspects in felony cases and nine on outstanding felony warrants.

In December in NEW YORK, NY, a joint operation by ATF, OIG and the New York Housing Police resulted in the dismantling of an entire street gang that had terrorized a five-block area of the Bronx. Twenty-six people were indicted. The gang was allegedly responsible for 17 homicides and controlled drug distribution in an area of publicly funded housing, importing, manufacturing and distributing drugs from within the publicly funded residential units. The task force used federal weapons and narcotics charges, guaranteeing that each gang member faces a minimum mandatory sentence of 5 years.

In WARREN, OH, OIG Agents working with ATF and the County Sheriff's and Police Departments, conducted an investigation into drug distribution within Fairview Arms Apartments, a development of the Warren Housing Authority. The investigation culminated in the arrests of 22 individuals for heroin and cocaine activities within the complex.

In TULSA, OK, a joint task force of ATF, OIG and state officers was developed to focus on violence flourishing within properties of the Tulsa Housing Authority. Thirty Authority residents were arrested in connection with the service of search warrants in the properties. Cocaine, marijuana and several handguns were seized. The searches were followed by a public information campaign that provided a telephone contact number so that violent crime can be reported anonymously.

In WASHINGTON, DC, law enforcement task forces have been created by the FBI, ATF, OIG and the Metropolitan Police, with the cooperation of the DC Department of Public and Assisted Housing (DPAH). These operations are focused within specific DPAH developments in order to reduce the level of violent crime permeating the areas. In November, OIG Agents, as part of ATF's Project Uptown Task Force, served search warrants in which cocaine and evidence of drug distribution were seized. During the same period of time, the FBI Safe Streets Task Force, which also includes the OIG, executed a similar search warrant upon the federally funded residence of a known drug distributor. Cocaine, drug manufacturing equipment and cash were seized.

In BOSTON, MA, two public housing residents became the first persons indicted under the portion of the 1994 Crime Bill that doubled the penalties for distribution of narcotics within 1,000 feet of public housing facilities. The indictments arose from a joint investigation by the DEA, OIG, Massachusetts State Police and Boston authorities into ongoing drug trafficking within Boston Housing Authority complexes.



In MIAMI, FL, OIG and Dade County Police, as part of Operation Take Back, arrested 20 individuals in 3 public housing developments on charges of possession and distribution of narcotics and theft. In addition to the law enforcement efforts, Operation Take Back promotes better community/police relationships through aggressive outreach efforts.

In LOWELL, MA, a 3-month operation was developed by DEA, OIG, the Massachusetts State Police and Housing Authority Police to disrupt narcotics traffic within the Lowell Housing Authority. Operation Clean House received some special funding from the Drug Elimination Grants of the Lowell Housing Authority. The operation concluded with the service of 4 search warrants and the arrests of 39 individuals for the sale of narcotics in and around Authority property. The Authority then followed up with the eviction of the parties in order to permanently remove that element from the residential area.

WITNESS RELOCATION

Traditionally, witnesses to violent crime are reluctant to come forward or otherwise cooperate with law enforcement out of fear for their lives or the lives of their loved ones. In the past, the OIG has worked on a sporadic basis with other federal, state and local law enforcement agencies to utilize HUD housing resources for witness relocation or undercover operations. Under Operation Safe Home, this activity has increased substantially due to the enhanced cooperation between law enforcement and public housing agencies. Also, in August 1994 HUD amended the Federal Preference Rule to facilitate the relocation of public housing tenants who have either provided information on criminal activity to law enforcement or will be testifying as witnesses at trial, and fear reprisals for their cooperation.

Since the inception of Operation Safe Home, the OIG has facilitated the physical relocation of 131 families whose lives were placed in jeopardy for the assistance they provided to law enforcement efforts. The relocations have been accomplished primarily through use of housing vouchers and certificates from cooperating housing authorities. Examples of witness relocations facilitated by OIG Agents during this semiannual reporting period include the following.

- In the NEW YORK area, a witness to a homicide/narcotics operation was relocated after arrests of many of the drug gang were made.
- In NEW ENGLAND, a family was relocated after their eyewitness testimony led to the apprehension of six suspects in an arson/murder investigation.
- In the SOUTH, witnesses to murders that occurred in public housing complexes were relocated to ensure their safety and their testimony.
- In the WEST, two public housing tenants who testified against three suspected major heroin dealers were relocated at the request of the police. Also, at the request of the police, the witness to a fatal shooting in a public housing development was relocated after receiving death threats.
- In the MID-ATLANTIC area, a witness who had provided information concerning a public housing related homicide was relocated.

As awareness of this program grows, more and more housing authorities are cooperating in providing assistance. An increasing number are ensuring that a small block of certificates is readily available for law enforcement use. In addition, when such certificates are not available, the larger authorities are assisting by facilitating the immediate relocation of threatened witnesses to other locations within the confines of their authorities.



VIOLENT CRIME PREVENTION INITIATIVES

A major component of Operation Safe Home is the involvement of public housing authority managers, along with residents, tenant advocate groups, and concerned citizen organizations in cooperation with a host of federal, state and local resources to develop countermeasures to stop the proliferation of violence and reclaim publicly funded housing resources. To this end, most of the ongoing law enforcement task force operations have follow-on initiatives built into them. These include efforts such as the following.

- In HUD developments and surrounding schools in DETROIT, MI, OIG is coordinating ATF's Project Reach-Out and the Gang Resistance Education and Training, both of which are community policing programs.
- In WASHINGTON, DC, the task forces were structured to include DPAH management. Management's role is to coordinate administrative actions, remedies, maintenance, and clean-up and assert re-control over properties, in conjunction with search/arrest scenarios. These include prior visitation by DPAH management to developments to inspect physical conditions, determine legal residents and evict persons residing in unauthorized units.
- In ATLANTA, GA, OIG continued its participation in the Drug Abuse Resistance Education (DARE) Program at Cook Elementary School, the third location in the City funded under a DOJ Weed and Seed grant. All three locations are immediately adjacent to public housing properties.
- In November 1994, HUD provided guidance on the use of Community Planning and Development funds in developing public safety action plans in inner-city neighborhoods. This includes assisting in police officer homeownership in low-income neighborhoods. In addition, guidance was provided on use of Community Development Block Grant funds to develop and implement programs for drug and crime prevention.
- The U.S. Secret Service, working with OIG, HUD Public and Indian Housing (PIH) officials and the Houston Housing Authority (HHA), is in the final stages of completing a security assessment of a HHA public housing development. The assessment, which involved a complete physical inspection of the property and interviews with residents, HHA management and local law enforcement, will provide HHA and HUD personnel with technical guidance on enhancing the development's physical security. The assessment is based on a model developed by the Secret Service during a previous security assessment at the Baltimore Housing Authority.
- The OIG continues to work with HUD PIH officials to develop standardized training programs and standards of operation for public housing police. In this regard, in March 1995, PIH hosted a symposium with the Center for Public Safety, attended by all the Chiefs of the Public Housing Police Units, OIG and the Federal Law Enforcement Training Center (FLETC), to address standardization criteria for public housing police. FLETC is finalizing a review of current training afforded public housing police officers. From that review, they will develop targeted training for public housing police managers for potential use by housing police.
- In March 1995, the International Association of Chiefs of Police (ACP), in cooperation with the OIG, hosted a forum consisting of HUD PIH officials and 10 police chiefs selected by IACP from around the country. The main focus of the forum was the need for better understanding and communication between housing authorities and local police forces. Meeting participants agreed to develop plans for forums throughout the country to help meet that need.
- HUD's Office of Assisted Housing created its Safe Neighborhood Action Plan (SNAP) Program to focus the U.S. Conference of Mayors, the National Assisted Housing Management Association (NAHMA) and various local resources on addressing crime prevention in publicly assisted housing developments. Since October 1994, SNAP action plans have been developed for 14 locations throughout the country.
- HUD's Special Action Office represents the Department on an interdepartmental initiative titled Pulling America's Cities Together (PACT). This initiative focuses on overall crime reduction and prevention activities in four locations: WASHINGTON, DC; DENVER, CO; ATLANTA, GA; and the STATE OF NEBRASKA. PACT was the



impetus for the OIG's facilitating a law enforcement task force in the Washington Highlands area of Washington, DC. The task force is comprised of ATF, OIG and the Metropolitan Police Department. Crime prevention enhancements, including the development of a strong resident council and the establishment of an "on-site" police substation, have already been put in place. Traditional law enforcement efforts continue.

Combating Fraud in Public and Indian Housing Administration

The Operation Safe Home strategy for combatting fraud in public and Indian housing administration entails:

- Probes by OIG audit and investigative teams to identify cases of potential fraud; and
- OIG, FBI, and DOJ commitment to aggressively investigate and prosecute alleged theft, misuse, or diversion of public housing funds.

Under Operation Safe Home, the OIG has completed fraud probes at 19 public housing authorities. These probes are targeted to specific housing authority administrative operations; rely heavily on interviews to obtain information; are completed within 5-6 weeks each; and result in referrals for further investigation rather than official reports.

Also during this reporting period, the OIG initiated a program of limited audit surveys to better target the fraud probes to high risk housing authorities. Fifty surveys have been scheduled; 25 were completed during this reporting period.

Recognizing that effective fraud prevention will require the involvement and commitment of top housing authority management, this period the OIG drafted a proposed housing authority fraud policy for PIH consideration. The proposed policy would require housing authority management to:

- Notify employees and managers of their respective responsibilities;
- Forbid illegal activities, including those for the benefit of the organization;
- Provide for a consistent reporting and investigative process;
- Forbid cover-up and witness retaliation; and
- Require full cooperation with law enforcement and regulators.

PROSECUTIONS OF FRAUD IN PUBLIC HOUSING ADMINISTRATION

Since the announcement of Operation Safe Home on February 4, 1994, the FBI/DOJ/OIG commitment to investigate and prosecute fraud in public housing administration has resulted in 77 indictments, 55 pleas/convictions, and sentences that include 232 months of incarceration and fines/restitutions totalling in excess of \$642,000.

Results during this semiannual reporting period include 18 indictments, 20 convictions, sentences totalling 99 months incarceration and fines and restitution exceeding \$332,000. In addition, 31 new investigations were initiated involving potential fraud in PHAs. Examples of results attained this period include the following.

In BALTIMORE, MD, a joint FBI/OIG investigation resulted in the conviction of six contractors, three Baltimore



Housing Authority employees and a Maryland Community Development official on charges involving bribery and public corruption. The contractors paid bribes to the Housing Authority employees in order to receive preferential treatment in the award of HUD funded contracts.

In MIAMI, FL, following a joint investigation by theOIG, the Federal Emergency Management Agency and the Florida Department of Law Enforcement (FDLE), a contractor and his firm were convicted of fraud in the submission of over \$200,000 in fraudulently inflated invoices for work allegedly performed for the Dade County Housing Authority. In addition, the former director of the Dade County General Services Administration was indicted for accepting over \$42,000 in bribes and other gratuities for his role in awarding the Housing Authority contracts to the contractor. This second case was a joint investigation by theFBI, OIG and FDLE.

The former executive director of theBLAKELY, GA Housing Authority was sentenced to 6 months incarceration with 3 years probation and ordered to make restitution of \$3,200. He embezzled over \$80,000 from the Authority by using a fictitious contracting firm. This was anOIG investigation.

Following an OIG investigation, the former executive director of theARCADIA, FL Housing Authority waived indictment and pled guilty to an information filed in U.S. District Court on charges of embezzling over \$16,000 from the Authority.

A former contractor for theEAST CHICAGO, IN Housing Authority was sentenced to 2 years probation after it was disclosed that he made payments to an employee of the Authority. The employee assisted the contractor in submitting false statements to the Authority in order for the contracting firm to receive a \$775,000HUD funded contract. This was a joint FBI/OIG investigation.

The former Section 8 coordinator of theROCK FALLS, IL Housing Authority was sentenced in federal district court to 1 year incarceration with 3 years probation for embezzlement. The coordinator was ordered to make restitution of the \$69,500 she converted to her own use by creating fictitious Section 8 landlords and housing assistance contracts. This was anOIG investigation.

As a result of a joint FBI/OIG investigation in ST. PAUL, MN, a former employee of the Minneapolis Housing Authority was sentenced to 3 years incarceration with 3 years probation for taking bribes from prospective tenants in return for preferential placement.

The former executive director of the Bad River Indian Housing Authority,ODANAH, WI, was convicted in state court on charges of theft for embezzling almost \$11,000 in Authority funds. This was a jointFBI/OIG investigation.

As a result of a joint FBI/OIG investigation in FORT TOTTEN, ND, the former executive director and the chairman of the board for the Tribal Housing Authority were charged in federal district court with embezzling approximately \$25,000. Both officials used the funds for enhancements to their personal property.

A former employee of theCROW CREEK, SD Housing Authority was indicted in federal district court for embezzling \$5,500 in Authority funds via checks drawn on tenant accounts. She was sentenced to 6 months incarceration with 3 years probation and ordered to make full restitution. This was a jointFBI/OIG investigation.

In DENVER, CO, an accounting clerk for the Denver Housing Authority pled guilty to theft and embezzlement in federal district court. The indictment stems from anOIG investigation into the conversion of over \$10,000 in checks payable to various landlords over a 2-year period.



Following an OIG investigation in PHOENIX, AZ, two employees of the Nogales Housing Authority were sentenced for their part in a 10-year conspiracy to convert Section 8 funds to their own use. The two, along with another Authority employee and a bank official, diverted approximately \$240,000 in Section 8 assistance from the Authority by creating fictitious tenants and landlords in whose names rental assistance checks were issued and cashed. In addition, they extorted approximately \$10,000 from Section 8 tenants and applicants to ensure their participation in the program. One employee was sentenced to incarceration of 1 year with 3 years probation and ordered to pay \$201,871 in restitution to HUD. The other employee was sentenced to 5 years probation and ordered to pay \$13,500 in restitution.

As a result of a joint FBI/OIG investigation in SPOKANE, WA, the former executive director of the Spokane Indian Housing Authority was indicted and pled guilty to embezzling almost \$13,000 of Authority funds to support his personal lifestyle. He was sentenced to 5 years probation and ordered to make full restitution.

The former executive director of the YAKIMA, WA Indian Housing Authority was indicted in federal district court for embezzling over \$92,000 of Authority funds and converting Authority property, which was recovered incident to a federal search warrant. This was a joint investigation by the OIG and the Bureau of Indian Affairs.

The investigation of the WASHINGTON, DC DPAH continued, with the conviction and sentencing of three DPAH employees for their extortion of program applicants who wanted housing units. Each pled guilty to charges of accepting a bribe and received incarceration ranging from 6 months to 1 year with probation of 3 to 5 years. In addition, a CHICAGO, IL resident pled guilty to attempted bribery charges for his role, along with two other previously convicted DPAH employees, in a scheme to provide housing vouchers to applicants in exchange for payments. This was a joint FBI/OIG investigation.

Combating Equity Skimming in FHA Insured Multifamily Housing

The multifamily equity skimming aspect of Operation Safe Home combines aggressive, affirmative litigation with proactive initiatives to stop owners and management agents from diverting much needed funding away from rental housing projects to their personal use. Through the combined efforts of the Offices of Inspector General, Housing, and General Counsel, equity skimming cases are being developed and presented to U.S. Attorneys for affirmative litigation, balancing the most effective combination of criminal prosecution, civil suits, and out-of-court settlements, and keeping in mind the best interests of the tenants and HUD. Considering the previous lack of enforcement in this area, accomplishments under Operation Safe Home have been very significant.

During the first 12 months of Operation Safe Home, the OIG identified 146 cases with an estimated \$106 million in potential equity skimming. HUD has already settled or obtained civil judgments on 18 cases for about \$25 million and obtained 5 criminal convictions. Another 73 cases involving \$61 million of equity skimming have since been accepted by U.S. Attorney Offices for civil or criminal prosecution. Results obtained during this 6-month reporting period include the following.

A grand jury indicted a regional property manager for misusing funds at the Bellerive Apartments in KANSAS CITY, MO; Territory Square, Empire Square and Harlan Court Apartments in ST. LOUIS, MO; and The Woods



Apartments in DECATUR, IL. The manager was charged with and pled guilty to converting \$54,000 of project funds for his own use. Following a joint FBI/OIG investigation, he was sentenced to 1 year incarceration and 3 years supervised probation, and was ordered to make restitution of \$70,000.

An owner in PAPILLON, NE, was sentenced to 2 years in prison for diverting \$556,000 of Huntington Park rents, assets and income to non-project expenditures. The diversions occurred while the project mortgage was in default and resulted in deferred maintenance on the apartments. HUD paid a mortgage insurance claim of almost \$6 million. Restitution matters in this case are to be decided by a bankruptcy court.

The United States Attorney's Office in PHILADELPHIA, PA, filed a civil complaint under federal equity skimming statutes on behalf of HUD, seeking approximately \$1 million from the owner/manager of Affiliated Management for misusing funds from four HUD assisted projects. As reported in an OIG audit of Affiliated Management, the owner/manager of Greenway Court, Overbrook Arms, Morgan House, and Cedar Greene Apartments improperly withdrew \$508,000 from the projects. The mortgage delinquency owed HUD for the four projects now exceeds \$6 million.

An OIG review of the operations of The Grand Ohio multifamily project in CHICAGO, IL, identified improper diversion of \$456,047 in project funds. These disbursements occurred during a period the project mortgage was in default. The owners cooperated and agreed to repay the improperly used funds. Under the settlement, the owners have already repaid \$302,928.

HUD received \$467,830 from the owners of Miners Park Apartments, an insured complex in LEADVILLE, CO. The payment consisted of monies retained by the project even though they were required to be submitted to HUD because the mortgage was in default. The violation was disclosed during the course of an OIG review, and was resolved through a demand by HUD on the project owners.

The owner of San Rafael Apartments, a HUD insured project in ST. LOUIS, MO, has already repaid HUD \$201,500 and has agreed to repay another \$525,908 for project funds withdrawn by the owner. The improper use of project funds was disclosed by HUD during a routine review of the annual financial statements. Settlement with the owner was the result of HUD negotiations.

In BOSTON, MA, the U.S. Attorney filed a civil complaint against the owner of Roxse Homes which seeks to recover over \$120,000 and alleges that the owner unlawfully diverted funds that should have been used for repairs and expenses at the apartment complex. The funds were used to pay attorneys' fees for services rendered that were not necessary for the project's operations.

The U.S. District Court in ST. LOUIS, MO, granted a Summary Judgment in favor of HUD, ordering the owners of the Baden Plaza Apartments to pay HUD \$84,370. An OIG audit of the 96-unit complex disclosed the owners diverted project funds to make payments toward a personal loan and other expenses not related to project operations. The project's \$1,559,300 mortgage was assigned to HUD and later foreclosed.

In INDEPENDENCE, MO, the owner of Glendale Commons Apartments admitted in a plea agreement to willfully and knowingly diverting approximately \$1.4 million of rents and other funds from the HUD insured multifamily housing property. Glendale Commons Apartments is a 280-unit complex originally insured by HUD for \$5 million. The mortgage was assigned to HUD in 1986, after which time the owner skimmed the \$1.4 million. The owner is currently awaiting sentencing.



HUD approved a \$160,000 repayment plus interest for Garden Villas, an insured retirement service center in ST. LOUIS, MO. The general partner made a one-time diversion of funds from the project while the insured mortgage was in default. The diverted funds were used to repay a construction loan that improperly encumbered the retirement service center.

In DALLAS, TX, the U.S. Attorney filed a civil action against Eastfield Management, Inc. and its owner to recover assets or income of 27 HUD insured properties amounting to \$2.9 million. An OIG audit reported that the funds were diverted or misused, primarily through overcharging or misallocating expenses to the HUD insured projects, 11 of which are delinquent on their mortgage payments.

The U.S. District Court in KANSAS CITY, MO, sentenced an owner of Sunjay Management to 3 months incarceration, 3 months at a halfway house, and 3 years supervised probation. The owner was also ordered to pay restitution of \$48,457. The owner diverted more than \$95,000 from three HUD insured apartment complexes.

At the request of the HUD Los Angeles Office, OIG audited Retirement Housing Foundation, Inc., LONG BEACH, CA, a company that manages 100 HUD multifamily projects located in various states and Puerto Rico. The audit disclosed that the company improperly withdrew monies from 35 HUD assisted projects for repayment of owner advances. Most of the funds were withdrawn from one project which was in default. HUD determined that \$322,778 was due to 15 projects. In March 1995, Retirement Housing Foundation reimbursed the projects for this amount.

An OIG audit disclosed serious mismanagement of Parkgate Apartments, KANSAS CITY, MO, that led to project failure and \$3.6 million in losses to HUD. The owner improperly used project funds (\$50,000); made questionable payments to an identity-of-interest company (\$77,000); failed to disclose a second mortgage in a coinsurance application; and neglected or deferred maintenance (estimated at \$450,000). The owner was convicted of criminal charges and was sentenced to 5 months incarceration, 5 months home detention, and 3 years supervised probation. In addition, the owner was ordered to pay restitution of \$101,000. The court also imposed a \$100,000 fine.

The management agent and owners of Two East Eighth Street Apartments in CHICAGO, IL, agreed to pay HUD \$141,280 in response to violations disclosed during an OIG audit, including inappropriate rent concessions to an owner related company, payment of legal and accounting expenses not related to project operations, and excessive management fees. The project's mortgage is currently held by HUD following a \$23 million insurance claim in 1989.

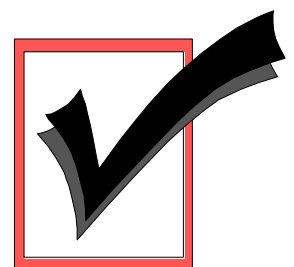
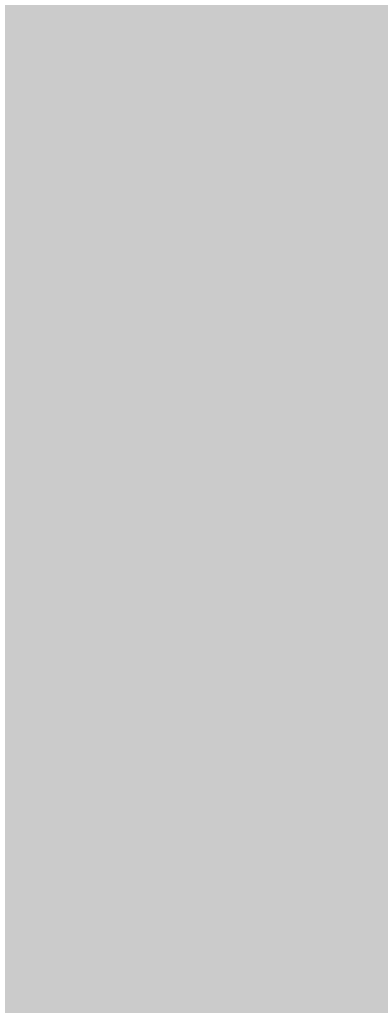
The identity-of-interest management agent for Concord Towers, a 177-unit multifamily project in MADISON HEIGHTS, MI, with a \$5 million HUD insured mortgage, used project funds to pay mark-up fees to obtain maintenance supplies and services. The management agent/owner has already repaid the project \$110,933 for the inappropriate use of project funds.

A grand jury in ALBUQUERQUE, NM, indicted the owner of Valle Del Norte, a HUD insured housing project, for withdrawing over \$25,000 from the project after HUD had notified the owner not to make distributions because of deferred maintenance at the project.





Other Significant Audits and Investigations



Despite the priority attention given this period to HUD's program design/execution issues and to Operation Safe Home, the OIG continued a balanced program of audits and investigations to assure coverage of HUD programs and operations. During this reporting period, OIG audits resulted in cash recoveries amounting to \$12.8 million, with another \$12.4 million in commitments to recover funds. Investigative efforts, including recoveries made and indictments/convictions obtained under Operation Safe Home, resulted in 577 persons indicted, 125 convicted, and cash and other recoveries of \$8.8 million. This section highlights the more significant audits and investigations conducted during the period.

Multifamily Housing Programs

HUD administers several Multifamily Housing Programs. In addition to projects with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages. It also subsidizes rents for eligible low-income households living in multifamily housing. During this reporting period, OIG audits and investigations focused on the Section 236 Rental Housing Program, management agent and owner operations, and fraud in Multifamily Housing Programs.

SECTION 236 RENTAL HOUSING PROGRAM

A multi-region audit of the Section 236 Rental Housing Program found that HUD's policies, systems, procedures, and practices are not adequate to ensure that owners of multifamily projects are accurately calculating excess income and promptly remitting excess income due HUD. In November 1981, an OIG audit had disclosed these same conditions, noting that the OIG had previously issued 17 audit reports on Section 236 projects with similar findings. Major findings in the current report are as follows.

- HUD needs to pursue changes in the method of calculating excess income and the form used for reporting. Such changes would increase the level of excess income collections, currently over \$65 million annually, by an estimated \$20 million per year.
- The Office of Housing, both at the headquarters and field office levels, needs to take more aggressive actions to collect about \$14.9 million in overdue excess income. Even though HUD initiated an effort to enforce collection of delinquent excess income in 1991, the effort does not appear to have been successful. Our review showed that project owners of five of 14 projects did not submit required excess rental income to HUD's Office of Finance and Accounting (OFA), even though project records showed that excess income had been collected from the tenants. Because internal control procedures designed to safeguard the accountability of funds due were not followed, HUD was not aware that \$829,900 was owed for the five projects.
- Since OFA records show that there are more than 1,400 other projects that have not submitted excess income reports, the potential exists that there is significantly more unpaid and unrecorded income that is unknown to HUD.

The audit recommended that the Assistant Secretary for Housing require the Office of Multifamily Housing Management to establish timetables for implementing changes in the method of calculating excess rental income and make corresponding revisions to the reporting form; work with OFA in developing a strategy for aggressively collecting delinquent excess income; and identify those projects that are delinquent, determine the amount of excess income owed, and establish a plan to collect overdue income. The Office of Housing agreed with some of the audit findings and recommendations and provided information on actions taken or planned to correct the corresponding problems disclosed in the audit. They disagreed with other findings. (Report No. 95-SF-111-0001)



MANAGEMENT AGENTS AND OWNERS

Audits have disclosed violations by management agents and owners of multifamily housing projects for many years. Misuse of project funds, whether intentional or not, contributes to both the physical and financial deterioration of projects. These violations, described below, are in addition to those addressed in the discussion of Operation Safe Home. Also during this period, the OIG completed a unique study to identify characteristics of good management agents.

At the request of the Deputy Assistant Secretary for Multifamily Housing, the OIG completed an audit study to identify characteristics of "good" multifamily management agents. The study was part of a nationwide cooperative effort on the part of HUD program staff, the OIG and the private sector to improve the way the Department approves and monitors management agents. The study indicated that:

- Important characteristics of good management agents include *operational* attributes such as experience; good accounting, operating and maintenance systems and procedures; and well-trained, qualified staff; and *human* attributes such as responsiveness; honesty; innovation; and interpersonal skills.
- Project performance or *results* indicators are necessary to assess the quality of property management. In this regard, factors such as tenant satisfaction, compliance record, physical condition of properties, and responsible reporting were considered important.
- HUD can and should require that prospective and existing agents have or obtain basic training in the management of HUD projects. As suggested by the Inspector General in testimony before the House Committee on Government Operations in July 1994, HUD should consider establishing a certification program for managers of multifamily projects.
- The two biggest obstacles to overcome in improving the way HUD approves and monitors management agents are working within current and expected future Departmental staffing constraints; and developing or procuring automated information systems which accurately depict the multifamily portfolio and the effectiveness of agents in managing these properties. (Unnumbered Audit Study)

Although a project owner in NEW YORK, NY, has made some improvements in its operations, an OIG audit estimated that the owner owes HUD \$5.1 million in excess income. The audit attributed the deficiency to accounting adjustments by the management agent and an independent public accountant that did not follow HUD requirements. The audit also disclosed that agent reexaminations of tenants' income were overdue; over \$255,000 in supplies or services was purchased without cost comparisons or supporting documentation; the owner did not charge tenants the HUD approved fair market rents; the management agent did not have an effective preventive maintenance program; and the agent's accounting system did not comply with HUD requirements. In addition to recommendations to recover the costs, the audit recommended procedural changes and strengthened controls to improve project operations. (Report No. 95-NY-212-1001)

An OIG audit of a multi-use complex in CHICAGO, IL, disclosed that an identity-of-interest hotel inappropriately withheld \$264,260 in credit card receipts owed to the project. In addition, the owners of the complex entered into a master commercial lease without HUD approval, costing the project \$194,732; inappropriately disbursed over \$72,000 of project funds into a non-project account controlled by the owners; and inappropriately used project funds to pay \$54,500 in partnership and miscellaneous expenses. The owners cooperated with HUD program staff and the OIG during the audit and agreed to take immediate corrective action. HUD and the owners entered an agreement whereby the owners agreed to offset the amount they owe the project, \$585,721, against management fees that they voluntarily let accumulate in the project. HUD gave the owners 30 days to provide documentation to support that \$48,000 of this amount was project related. If the support is provided, HUD agreed to add the \$48,000 back to the deferred management fee account. At the time of the audit, HUD was prepared to let the owners start



withdrawing the deferred management fees based on the improved financial position of the project. The management fees had accumulated to over \$1 million. (Report No. 95-CH-212-1806)

Poor financial management and inadequate on-site supervision by a management company in DALLAS, TX, which manages nine HUD insured multifamily projects, resulted in hazardous and deteriorated conditions at the projects, as well as crime, drugs and vandalism. The agent lacked the necessary license to perform its duties as a management agent in Texas. The audit also disclosed that, despite repeatedly being told by HUD officials to stop charging supervisory salaries for employees working at the HUD projects, the agent continued the practice, charging over \$265,000 in unallowable salaries and benefits during the 2-year audit period. The audit recommended that HUD terminate all management agreements with the agent and take administrative actions against the company. (Report No. 95-FW-214-1001)

A management agent for three coinsured projects in LOS ANGELES, CA, improperly transferred \$210,000 in project funds between projects and its own bank accounts to cover bank overdrafts, charged excessive management fees, and continually disregarded independent public accountant audit recommendations reported annually since 1988. As a result, the three projects, which were classified by HUD as financially troubled, were deprived of funds while the transfers were outstanding. The audit recommended that the agent be required to discontinue improper activities, repay any excess management fees, and use the HUD prescribed uniform system of accounts. (Report No. 95-SF-214-1801)

An audit of a project in NASHUA, NH, disclosed that the cash flow from operations and the reserve for replacement fund are not sufficient to correct existing housing quality standards deficiencies that have escalated to over \$1.8 million. Although the HUD New Hampshire State Office recently increased rents and deposits to the reserve for replacement, these increases will not build up reserves sufficiently to correct the deficiencies in a timely manner. The State Office and the agent are currently working to obtain additional funds under Operation Breakthrough, the program under which the project was originally constructed. The audit recommended that HUD continue to assist the agent in determining all funding options available to pay for the needed repairs. (Report No. 95-BO-212-1002)

The owner of BUFFALO, NY Multifamily Rehabilitation #3, a project that is part of the Buffalo Housing Associates, returned over \$46,000 to the general partner to repay an advance. The money was taken from project funds, which is contrary to HUD requirements. Because the owner failed to maintain the project in good repair and condition, two rent increases and two management improvement operating plans were needed to bring the project to a satisfactory condition. Repairs may have been deferred so that surplus cash would be available at year end to repay the advance to the general partner. Because the owner did not comply with procurement requirements, the project paid over \$147,000 for services, supplies and materials at prices that may not have been the lowest possible costs to the project. In addition, ineligible and unsupported salaries and excessive management fees were charged to the project. In addition to compliance with HUD requirements, the audit recommended that the owner reimburse the project from non-federal funds for all ineligible costs and that all unsupported costs be justified. (Report No. 95-NY-214-1002)

The HUD LAS VEGAS OFFICE LOAN MANAGEMENT BRANCH did not follow HUD policies and procedures when allowing a project owner to use project funds to repay lines of credit and to obtain a bank loan to pay off an advance, rather than reduce the defaulted HUD held mortgage. Specifically, the owner used over \$681,000 in project funds to pay back advances from the project that had been financed with two lines of credit. These credit lines had been secured by the owner's personal assets. In addition, the owner stated that project funds would be used to repay a bank loan obtained to reimburse a \$100,000 advance from the general partners, plus nearly \$47,000 in accrued interest. The audit recommended that HUD determine whether it would be in its best interests to recover project funds used to make payments on the lines of credit, and take appropriate action to assure future practices of the



Loan Management Branch are consistent with HUD policies. A separate audit report included recommendations addressing the repayment of owner advances. (Report No. 95-SF-111-0002)

OIG INVESTIGATIONS

Following a joint FBI/OIG audit and investigation, the closing attorney for a HUD insured project in MIAMI, FL, was sentenced to 9 months in prison and 3 years probation for conspiring with a developer and builder to defraud HUD by submitting false statements to obtain a \$17 million insured mortgage and diverting the property proceeds for personal use. The project subsequently went into default and HUD paid the claim. The attorney also pled guilty to obstruction of justice by attempting to influence witnesses. The developer and builder were previously convicted and sentenced.

In DETROIT, MI, a former mayoral candidate and the administrator of a HUD insured hospital were convicted on charges that they obtained a bank loan by fraudulently using \$1.7 million in hospital funds as security for the loan. This was an OIG audit/investigation.

Community Planning and Development

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeownership opportunities, homeless shelters, neighborhood restoration, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through the use of subrecipients. During this reporting period, audits and investigations focused on the Youthbuild Program, the HOPE 3 Program, the Community Development Block Grant (CDBG) Program and the HOME Program.

YOUTHBUILD PROGRAM

The purpose of the Youthbuild Program is to provide disadvantaged youth with education and employment skills through building and rehabilitating housing for low-income and homeless people. The OIG audited the program's first competitive funding award process and found that management controls over the original reviewer phase of the process provided for a fair and equitable selection process. However, management control weaknesses in the review panel phase of the process provided panel members with an undue opportunity to give disparate treatment to select applications. The audit also questioned the need for and benefit of the review panel phase of the selection process. The audit recommended that CPD eliminate the review panel from the process; provide adequate written instructions to govern the review panel's role, should the decision be made to retain the panel; expand the original application review procedures to formalize the role of the management team; ensure that all appropriate staff attend training on scoring criteria; and request HUD's Ethics Law Division to review the propriety of future CPD competitive funding award processes, and provide ethics training to the initial Youthbuild Program review panel members. CPD management is working to improve controls over its competitive funding decision processes. (Report No. 95-HQ-156-0001)

HOPE 3 IMPLEMENTATION GRANT PROGRAM

The purpose of the HOPE 3 Program is to enable low-income families, who are first-time homebuyers, to purchase federal, state or local government owned single family properties. Grant applications are accepted only



from private nonprofit organizations, cooperative associations, and public bodies cooperating with private nonprofit organizations. As part of the grant application, grantees are required to provide an agreed upon number of properties to eligible low-income families within 2 years. Audits performed during the reporting period disclosed that not all program requirements are being met. As discussed in the last Semiannual Report to the Congress, in some cases the number of properties actually transferred to low-income families is well below the planned number. The table below illustrates the findings of four audits performed during this period.

GRANTEE LOCATION	PROPERTIES PROMISED	PROPERTIES TRANSFERRED	PROBLEMS FOUND
Phoenix, AZ	100	12	For 6 properties, sale prices were a total of \$37,000 over fair market value limitations. Sale prices for all 12 properties were a total of \$141,300 more than amounts affordable to homebuyers. Over \$348,000 in mortgage loan proceeds were not properly accounted for. The grantee's authority to draw funds for new properties was suspended by HUD.
Chandler, AZ	66	7	Over \$185,000 in unsupported/ineligible costs were charged to the grant. Due to erroneous data entered in the computer, the grantee reported that it had acquired or assisted home purchasers to acquire twice the actual number of properties.
Birmingham, AL	30	0	The grantee made slow progress in providing housing to homebuyers. Calculations for affordability standards resulted in over- and under-subsidizing homebuyers. The grantee approved an ineligible applicant.
Tampa, FL	175	39	Controls over program funds were inconsistent. \$50,000 advanced to a co-applicant was unsupported. Initial property inspections to determine rehabilitation needs and cost estimates were not done.

Recommendations included terminating a grantee's SHOE 3 grant, requiring repayment of ineligible costs, preparing a realistic forecast of funding needs, continued monitoring and assistance by HUD, establishing procedures for the timely deposit of funds, and recording program costs as they are incurred. (Report Nos. 95-SF-256-1006, 95-SF-256-1001, 95-AT-256-1004, and 95-AT-256-1001)

CDBG PROGRAM

CDBG Programs enable communities to carry out a wide range of activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. Audits and investigations



found that grant funds are not always properly used.

METROPOLITAN DADE COUNTY, FL, loaned \$2.5 million of CDBG funds in 1987 to the Metropolitan Dade County Department of Housing and Urban Development. The loan has not been repaid and the grantee has not compensated for this loss of federal funds. The grantee did not have adequate budgetary controls over its approved activities, and did not monitor CDBG costs for activities carried out by other grantee departments. As a result, costs for 24 CDBG activities exceeded budgeted amounts by \$2 million. In addition, the grantee spent nearly \$500,000 in CDBG funds for ineligible activities and over \$1 million for unsupported activities, and could not show that each of its activities met a program national objective to provide benefits to low- and moderate-income persons. The audit recommended that the grantee be required to repay the \$2.5 million loan, develop proper budgetary controls, and reimburse the CDBG Program for ineligible costs. In addition, HUD should consider conditioning the grantee's entitlement grants until the grantee can show it has the capacity to effectively carry out approved CDBG activities. (Report No. 95-AT-241-1003)

The City of ALBUQUERQUE, NM, drew down \$825,829 in excess of its program costs and did not reduce its drawdowns before requesting additional CDBG funds. After HUD advised the City it was "overdrawn" because it had used CDBG funds to reimburse itself for HOME Program expenditures, the City made some corrections in June 1994, but still needed to make others. Therefore, as of the end of June 1994, the City had drawn down \$515,907 in excess of its needs. In addition, one of the City's subrecipients was not creating enough low- and moderate-income jobs to meet the national objectives of the program. The audit recommended that HUD require the City to implement procedures to ensure the accuracy of its drawdowns and reduce the costs for which the City is to be reimbursed on its next drawdown; and withhold further funding for the subrecipient pending the subrecipient's submission of an acceptable plan to comply with the requirements of its grant agreement. (Report No. 95-FW-241-1003)

HOME PROGRAM

The HOME Program provides grants to states, local governments and Indian tribes to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income persons. Funds can be used for tenant-based assistance, housing rehabilitation, assistance to first-time homebuyers, and new construction.

The OIG audited the HOME Cash and Management Information System, an integrated part of the HOME Program, and found that, while the system successfully tracks the set-up and disbursement of program funds, problems exist. CPD has not adequately addressed problems in user documentation and training, controls over the data input process, and management information provided by the system. This has contributed to an unusually high error rate on project set-up and close-out forms submitted by participating jurisdictions. In addition, the audit showed that the distribution of monthly management reports was not consistent among HUD field offices. The audit recommended documenting procedures and responsibilities for operation of the system, providing adequate user training, ensuring that participating jurisdictions and HOME Program monitors have timely access to technical assistance in understanding and correcting management reports, and conducting an analysis of management information provided to field offices and participating jurisdictions to determine if users are being provided the information necessary to monitor and manage the program. CPD generally agreed with the findings and recommendations. (Report No. 95-DP-166-0002)

An OIG audit disclosed that the City of NEW ORLEANS, LA, seriously mismanaged its HOME Investment Partnerships Program activities. Officials responsible for administering the program did not properly plan, implement or monitor HOME activities. The audit found numerous instances of misuse of federal funds, regulatory



violations, inefficiencies, and uncorrected deficiencies. The City spent \$6.8 million in HOME funds and \$482,000 in CDBG funds for rehabilitation of owner-occupied and rental properties. Of this amount, \$6.3 million in costs were questioned during the audit, in addition to over \$280,000 identified as ineligible. If the City is unable to produce the appropriate support for its expenditures, HUD will have to ask the City to return all of the funds. The funds for rehabilitation of properties were expended without establishing safeguards to ensure funds would be spent properly and desired program results would be achieved. The City's failure to adequately monitor management firms and nonprofit organizations overseeing rehabilitation work resulted in work paid for but not performed; unsatisfactory and unnecessary work; and violations of federal housing standards and local codes. The audit recommended that the City provide a plan of action showing how and when the deficiencies will be resolved, and that HUD take remedial steps if the City does not take effective action. (Report No. 95-FW-255-1007)

HOMELESS PROGRAMS

The National Affordable Housing Act, together with the Stewart B. McKinney Homeless Assistance Act, authorizes HUD to provide housing assistance to the homeless through several programs. The OIG's Pacific/Hawaii Office audited District Supportive Housing, Section 8 Single Room Occupancy, Shelter Plus Care and Single Family Property Disposition Initiative Programs to determine whether participants (1) met the Department's definition of homeless, and (2) were part of the specific population targeted in grant applications. After reviewing 318 program participants at 19 facilities, we found:

Findings	(1) Homeless Definition	(2) Part of Targeted Population*
Had adequate documentation on file	152 or 48%	209 or 68%
Lacked documentation in files	138 or 43%	61 or 20%
Did not meet definition	28 or 9%	38 or 13%

* 10 applicant files were not readily available for review.

Audits in other Districts disclosed similar conditions. Five audits of the Supportive Housing and Property Disposition Initiative Programs disclosed that 99 of 199 participants reviewed were either not homeless or there was inadequate documentation to support their homelessness. Although grantees are required to obtain documentation, the nature and extent of documentation needed are not specified. We recommended that HUD formulate policies specifying the level of documentation required of grantees and guidance regarding acceptable evidence of homelessness and inclusion of target population groups. The Assistant Secretary for CPD agreed with our evaluation of inadequate documentation, but disagreed with findings concerning the target population and stated that grantees were not restricted to serving the target populations specified in grant applications. (Report No. 95-SF-151-0003)

OIG INVESTIGATIONS

A former union president in SAN JUAN, PR, was sentenced to 6 months in prison and 36 months probation, and ordered to pay \$5,000 in restitution to HUD. The president was one of six individuals indicted on charges of conspiracy and submitting false claims to HUD to obtain CDBG funds. He submitted false invoices showing reimbursement for fictitious deliveries to a San Juan landfill. Plea agreements have been signed by four of the defendants. The investigation, initiated following an OIG audit referral, was conducted by the FBI, OIG and the Puerto Rico Office of the Comptroller.



A developer in CHAMPAIGN, IL, was sentenced to 15 months imprisonment, 3 years probation and restitution of nearly \$112,000 for falsifying documents in order to obtain block grant monies through a grantee. A further condition of the sentencing was that the developer not start a new corporation or incur any new debt during the terms of the probation without advising the court. This was a joint investigation with the Postal Inspection Service and the Illinois Department of Employment Security.

Following an OIG investigation, a developer and two other individuals in PHILADELPHIA, PA, pled guilty to tax evasion and making false statements to HUD. They were charged in a scheme in which they submitted fictitious insurance binders and fraudulent work write-ups in order to obtain interest-free loans to rehabilitate rental properties. The loss to HUD is estimated at \$319,000.

Public and Indian Housing

During this reporting period, we reviewed various public and Indian housing authorities' (PHAs) activities under the Comprehensive Improvement Assistance Program (CIAP), the Comprehensive Grants Program (CGP), the Public Housing Management Assessment Program (PHMAP), and the Technical Assistance Grant Program (TAGS). We also reviewed other activities concerning the operations of a tenant management corporation and a housing authority.

CIAP, CGP AND PHMAP

CIAP and CGP supply federal aid to PHAs so that they may finance improvements such as upgrading living conditions, correcting physical deficiencies, and achieving operating efficiency and economy. PHMAP sets performance indicators by which HUD determines the PHA management capabilities and deficiencies.

An audit of the SAN ANTONIO, TX Housing Authority's administration of its CIAP, CGP, and contracting procedures disclosed that the Authority obtained grant funds in excess of immediate cash needs ranging from \$679,000 to \$1 million. This occurred because the Authority drew down funds for contract amounts not yet due. The Authority did not regularly reconcile funds drawn to funds expended, which resulted in a duplicate payment of over \$300,000. The Authority also needed to improve and strengthen controls over purchases under \$10,000. The audit recommended that HUD require the Authority to strengthen controls to prevent excessive drawdowns, return the excessive drawdowns to the line of credit, and review its records to determine if any others exist. (Report No. 95-FW-201-1005)

While the PADUCAH, KY Housing Authority is in general compliance with program requirements, the Authority has experienced problems in procurement and contracting. Our audit showed that the Authority overpaid an architectural and engineering firm by \$54,471 for its services. The Authority failed to obtain competitive proposals for additional work needed, and authorized the same firm to do the work without benefit of a contract or a contract extension. The audit recommended that the Authority obtain reimbursement for overpaid expenses and execute a contract for services not under contract. (Report No. 95-AT-204-1002)

An audit of the operations of the Fayette County Housing Authority, UNIONTOWN, PA, found no deficiencies in the Authority's administration of PHMAP, maintenance, or tenant accounts receivable. The Authority is to be commended for its collection of rents and the good condition of the sampled units and projects. However, management oversight and control were in need of improvement. The Authority paid various companies owned by the same two individuals for work which was not procured or inspected as required, resulting in over \$516,000 of



unsupported costs and \$18,000 of ineligible costs. Improper procurement of insurance resulted in the Authority's incurring over \$207,000 in unsupported insurance premiums and ineligible costs of over \$12,000. The audit also disclosed improper administration of several aspects of the Public Housing Drug Elimination Program. The audit recommended that the Authority reimburse the Public Housing Program for ineligible costs, justify the unsupported costs, and implement specific actions to correct the operational and administrative deficiencies cited. (Report No. 95-PH-204-1003)

TAGs

TAGs were created to enable residents to manage projects through Resident Councils. The program is administered by PIH's Office of Resident Initiatives. An audit of the program found that after 6 years of funding, only 15 of 328 Councils have made progress in assuming the management of all or a portion of their projects. The audit also raised concerns about the Office of Resident Initiatives' program direction moving away from its primary purpose of promoting resident management. Subsequent to the audit period, HUD revised the Public Housing Resident Management Program, renaming it the Tenant Opportunity Program and encouraging Councils to pursue activities "including but not limited to resident management and which improve living conditions and resident satisfaction in public housing communities." Subsequent to completion of the audit, Secretary Cisneros proposed the *Reinvention Blueprint* that would consolidate programs and end separate funding for resident initiatives, thus resolving the concerns raised by the audit if the *Blueprint* is passed and implemented. (Report No. 95-AT-101-0001)

OTHER ACTIVITIES

A former employee of a tenant management corporation in PHILADELPHIA, PA, was able to embezzle over \$60,000 because internal accounting controls were inadequate. Specifically, there were no clear written policies or procedures, no separation of duties, and weaknesses in cash receipts, disbursements and accounting records. The audit also found that the corporation failed to support and document disbursements for maintenance materials, supplies and equipment, inadequately monitored a security firm, and did not establish a policy concerning the investment of its funds. The audit recommended that the PHA or the corporation reimburse the development's account from non-federal funds for the \$63,611 of ineligible costs, and provide justification for unsupported costs totalling \$142,788 or reimburse the development's account from non-federal funds. (Report No. 95-PH-201-1004)

A review of selected administrative practices at the BRYAN, TX Housing Authority did not find any irregularities or abuse. However, the review did disclose that poor internal controls and recordkeeping identified in the HUD Houston Office's 1990 monitoring review still exist. The 1990 review reported weaknesses in use of rental collections, deposits, bank statement reconciliations, inventory records, and procurement. It is apparent that corrective action promised by the Authority never materialized. The audit recommended that the HUD Houston Office meet with the Commissioners and inform them of their role in managing, setting policy, and providing oversight and the consequences of existing problems if uncorrected. The PHA should also immediately contract for the services of a fee accountant to perform the ongoing bookkeeping and financial reporting requirements. (Report No. 95-FW-202-1803)

Section 8 Rental Assistance



The Section 8 Rental Assistance Programs aid low- and very low-income families in obtaining decent, safe, and sanitary housing by paying a portion of their rent. Rental assistance may be used in existing housing, new construction, and moderately or substantially rehabilitated units.

FINANCIAL MANAGEMENT SYSTEMS

Historically, the Section 8 financial management systems have been unreliable. As a follow-up to an April 1992 audit, we audited the progress HUD has made in implementing improvements to its budgeting and accounting systems. The audit disclosed that HUD implemented interim procedures that improved the reliability of the Section 8 contract renewal estimates, but continues to experience problems submitting those estimates to OMB within the specified timeframes. Moreover, the system currently used as the foundation for the estimates was not consistently being maintained by all field offices, and this could adversely impact future renewal estimates. The audit recommendations included a budgeting plan that would outline the responsibilities in the budget process, as well as monitoring by the Chief Financial Officer. The Assistant Secretaries for Housing and Public and Indian Housing and the Deputy Chief Financial Officer for Finance agreed with most of our findings and recommendations. (Report No. 95-FO-103-0001)

RENTAL VOUCHER PROGRAM

Under the Section 8 Rental Voucher Program, HUD enters into contracts with local public housing authorities (PHAs) which administer the program. The PHAs issue rental vouchers to eligible very low-income families who are free to locate to suitable rental units that meet their needs. The tenants pay a portion of the rent based on a percentage of income. HUD, through the PHA, makes up the difference.

An audit of the MOBILE, AL Housing Board (Board) disclosed that the Board was not fully using available voucher funding. An analysis of the \$1.5 million project reserve showed that the Board could increase the current level of assistance by 600 units. In addition, 34 of the 36 units inspected did not meet one or more housing quality standards. The Board also had a policy of not issuing vouchers for more than two-bedroom units, thus excluding larger families from the Voucher Program. The Board did not limit advances to the amount of expected expenditures. As a result, at December 31, 1993, we estimated the revolving fund owed the Section 8 Program about \$200,000. The audit recommended that the Board require property owners to make any repairs necessary to bring the units into compliance with housing quality standards or remove them from the program; and that the Board resolve to no longer arbitrarily exclude applicants for housing, or unfairly reject/select them. The Board should also return any money transferred inappropriately and implement a cost allocation plan that fairly treats joint costs involving multiple programs. (Report No. 95-AT-203-1007)

The OIG reviewed the Turtle Mountain Housing Authority, BELCOURT, ND, to follow up on a referral by the Authority's independent public accountant regarding the discovery of a cash shortage of over \$80,000. The review found that controls over cash receipts and disbursements were inadequate. The functions of handling cash and recording cash transactions were vested with the same employee. In addition, cash receipts were not deposited timely and intact, revenues were improperly used as petty cash funds, and security over cash assets was inadequate. At the time of our review, Authority officials had initiated some corrective actions to implement better internal controls. However, not all of the weaknesses have been corrected. The audit recommended that HUD provide technical assistance to the Authority in revising its procedures. (Report No. 95-DE-207-1002)



OIG INVESTIGATIONS

As a result of an ongoing task force created by theOIG in 1992, the former executive director of one of the largest home attendant service providers inNEW YORK CITY pled guilty to falsifying income onHUD recertifications, forging signatures of employees, creating bogus W-2s, and fraudulently obtaining nearly \$41,000 in Section 8 rent subsidies from HUD. To date, 25 individuals have been arrested and 17 convicted of fraud through the efforts of the task force comprised of agents from theFBI, U.S. Postal Service, Immigration and Naturalization Service, Secret Service and theOIG.

A PEORIA, IL management agent was sentenced to 6 months in prison, 3 years probation, and ordered to pay \$20,000 in restitution. The sentencing followed anOIG investigation that showed the management agent lied about how much annual income several tenants received.

A joint investigation with local authorities determined that aST. CLOUD, MN tenant and his wife failed to report employment income to the housing authority. The tenant was sentenced to prison for 1 year and 1 day and ordered to pay restitution of \$14,321.

An OIG and OR Department of Human Resources investigation disclosed that two former residents concealed Social Security benefits from the Housing Authority of theCOUNTY OF CLACKAMAS, OR. They also concealed worker's compensation benefits when applying for food stamps. The individuals were each sentenced to 10 days in prison, 18 months probation, and ordered to pay restitution totalling \$13,000 plus court costs.

In DENVER, CO, an OIG audit/investigation found that a landlord and a former tenant failed to report to the Housing Authority that the tenant had moved out of the unit for which the landlord continued receiving Section 8 assistance. The tenant was fined \$250 and the landlord was sentenced to 6 months probation, fined \$250, and ordered to pay restitution of \$12,952.

An AUGUSTA, GA landlord/tenant pled guilty to receiving rent subsidy payments for a property that she owned and lived in. She also received funds for a nonexistent day care operation. The loss to bothHUD and the Department of Agriculture is over \$95,000.

As a result of an OIG investigation, a MINNEAPOLIS, MN tenant pled guilty to wrongfully obtaining Section 8 housing assistance, Aid to Families with Dependent Children, and food stamps by failing to report employment income. The tenant received 3 years probation and was ordered to pay over \$5,000 in restitution.

Single Family Housing

The Single Family Housing Programs are designed to encourage loans to first-time homebuyers and others who might not qualify for conventional mortgage loans. Instances of malfeasance by mortgagee personnel and brokers in the origination of loans and by speculators and investors in strawbuying and equity skimming continued to be disclosed during this reporting period. A strawbuyer is paid to act as the buyer of a property and then transfers the property to a speculator who eventually defaults on the mortgage. Equity skimming is the practice of taking rent receipts but not making the mortgage payments.



OIG INVESTIGATIONS OF LOAN ORIGINATIONS

In a joint OIG/FBI investigation in northern VIRGINIA, two mortgage loan brokers, two real estate brokers, a former real estate salesperson and 10 mortgagors were convicted of submitting false tax returns, Wage and Tax Statement forms, and various other income information in a scheme to obtain FHA insured mortgage loans. Sentencing of eight mortgagors has resulted in a total of 16.5 years probation, \$750 in fines, \$24,000 in restitution, and 125 hours of community service.

As a result of a joint OIG/FBI investigation into a scheme to obtain over \$1.2 million in fraudulent mortgages, a MIAMI, FL real estate broker and six other individuals pled guilty to providing false statements. In order to qualify purchasers for FHA insured mortgages, the broker provided the purchasers with down payments and falsified employment documents. The properties have been foreclosed with a loss to HUD of over \$230,000.

As a result of a joint investigation with the FBI targeting unscrupulous applicants, real estate agents, brokers, and loan officers within the CLEVELAND, OH area, a real estate agent was indicted for his involvement in falsifying mortgage applications to assist a drug dealer in hiding drug proceeds. The false statements concerned asset information and down payments of \$45,000. The dealer has since been convicted of drug trafficking.

Two individuals were sentenced in separate cases on LONG ISLAND, NY. In one case, a mortgage company loan officer was sentenced to 24 months in prison and 2 years supervised release in a \$6 million mortgage fraud scheme. The loan officer caused the origination of fraudulent HUD insured and conventional mortgages through a holding company and a savings bank. In the second case, a mortgage broker was sentenced to 8 months in prison and 3 years supervised release, fined \$2,000 and ordered to pay \$117,000 in restitution for submitting false information in order to help a client refinance a mortgage. The property eventually went into foreclosure. Both convictions were the result of joint OIG/FBI investigations.

As a result of a joint OIG/Department of Veterans Affairs (DVA) investigation, a WASHINGTON, DC mortgage company owner was sentenced to 6 months home detention, 150 hours of community service and 2 years probation for failing to remit both HUD insurance premiums and DVA funding fees that he collected on mortgage loans originated by his company. The mortgagee subsequently sold the loans to an investor as being insured or guaranteed by falsifying the loan packages to indicate the appropriate premiums and fees had been remitted.

OIG INVESTIGATIONS OF STRAWBUYING

As a result of an OIG investigation, a former real estate investor in PHOENIX, AZ, pled guilty after orchestrating the acquisition of approximately 100 FHA insured homes using a real estate salesperson and a strawbuyer. The properties were quit-claimed to the investor who proceeded to skim the rental proceeds without applying the funds to the mortgages. The loss to HUD was approximately \$1.6 million.

A LITTLE ROCK, AR speculator was convicted on eight counts of bank fraud after a jury trial as a result of a joint OIG/FBI investigation. The speculator arranged to cash out equities in his properties using strawbuyers who immediately quit-claimed the properties back to the speculator upon closing. All 19 properties went into foreclosure with the exception of two which were brought current by the strawbuyer to preserve the strawbuyer's credit. Two co-defendants were acquitted; a third previously pled guilty and agreed to cooperate with the government.

As a result of an OIG investigation, a federal grand jury in CHICAGO, IL, returned a 21-count indictment against four individuals involved in the fraudulent purchase of 11 properties that subsequently went into foreclosure. This



scheme caused banks and other lending institutions to issue over \$1 million in FHA mortgages and other loans based on the fraudulent applications.

A strawbuyer was sentenced to 5 months probation and ordered to pay \$15,000 in restitution after a joint OIG/DVA investigation. To date, four individuals have been charged and convicted in this wide ranging mail fraud conspiracy in CHICAGO, IL, which involved routine falsification of application documents for FHA insured mortgages. Losses to HUD amounted to over \$100,000.

A TAMPA, FL investor created corporations to sell real estate at inflated prices and then falsified the down payments made by strawbuyers. In addition, the corporations he created provided false income information on the Verification of Employment forms, which enabled the unqualified strawbuyers to obtain both FHA insured and VA guaranteed mortgages. The investor was found guilty and sentenced to 3 years probation and ordered to perform 250 hours of community service. This was a joint investigation with the DVA OIG, the Internal Revenue Service, and the FBI.

OIG INVESTIGATIONS OF EQUITY SKIMMING

As a result of a joint OIG/FBI investigation, a federal grand jury in DALLAS, TX, indicted a real estate speculator and his wife on charges of conspiracy, mail and wire fraud and equity skimming. Operating under various names, they perpetrated a scheme to assume homes insured by FHA and guaranteed by the VA, collect rent/mortgage payments, and not make the mortgage payments to the lenders. At the time of the indictment, at least 25 FHA properties were known to be involved with an estimated loss to HUD in excess of \$2 million.

More than 150 properties were involved in an OIG investigation of an equity skimming scheme in DENVER, CO, where a property manager was sentenced to 2 months in prison and 3 years probation. The court determined that the loss to HUD was \$804,981, but that the manager did not have the ability to pay restitution or a fine. His two co-defendants were found guilty of equity skimming and mail fraud last year.

A BOISE, ID real estate speculator and his former wife were found guilty on 12 counts of mail fraud and one count of equity skimming after acquiring 14 HUD insured and VA guaranteed properties, collecting over \$70,000 in rents and not making any mortgage payments. Losses to both agencies were estimated at \$300,000. This was a joint investigation with the DVA OIG.

Government National Mortgage Association

The Government National Mortgage Association (GNMA) provides a means of channeling funds from the Nation's securities markets into the residential mortgage market. GNMA guarantees the timely payment of principal and interest to holders of securities issued by private lenders and backed by pools of FHA, DVA, or Farmers Home Administration insured or guaranteed residential mortgages.

During this reporting period, Price Waterhouse audited GNMA's FY 1994 financial statements and found that the statements present fairly, in all material respects, the financial position and results of operations and cash flows in conformity with generally accepted accounting principles. In prior audits, Price Waterhouse identified three internal control reportable conditions, which were partly attributable to constraints on GNMA's staffing. In the current audit,



Price Waterhouse concluded that GNMA had taken sufficient action on two of the conditions to remove their characterization as material weaknesses. (Report No. 95-FO-171-0002)

Administration

The Office of Administration oversees the support functions that are necessary to carry out the Department's programs responsibly and effectively. These functions include contracting, information management, budgeting, human resources management, training and general building and office services. During this reporting period, we evaluated a contractor's request for payment and termination claim.

A for-profit corporation established in the state of GEORGIA operates as a Real Estate Asset Manager (REAM) doing business in 28 states and the Caribbean. At the request of the HUD Ft. Worth Contracting Officer, the OIG examined the corporation's \$375,942 claim for debris removal work. In addition, at the request of the HUD San Francisco Contracting Officer, we examined the corporation's termination claim.

In February 1993, HUD amended the corporation's contract for ABILENE, FT. WORTH NORTH, FT. WORTH SOUTH AND TYLER, TX, to include debris removal work previously done by mortgagees. Thereafter, the corporation received properties in "as is" condition and had the responsibility to remove all debris from assigned properties. HUD and the corporation agreed to a price of \$225 per house for the added work. In March 1994, the corporation submitted a \$375,942 claim for additional costs to do modified debris removal for 917 properties between February and June 1993. The corporation based the claim on calculations of \$410 per house for the additional costs. At the time of our audit work, HUD had made no partial payments on the claim. Our audit determined that the corporation's \$375,942 claim should be reduced. This is based on over \$839,000 in questioned costs contained in the corporation's comparative data and an increased number of units for the base period used to calculate the debris removal rate. (Report No. 95-AT-269-1006)



A review of the corporation's termination claim for California REAM services disclosed that a \$243,000 claim, though generally supported, is not reasonable. The claim seeks recovery of costs at properties covered by prior contracts with HUD which are also included in subsequent contracts between the corporation and HUD. Therefore, overlapping payments will result if HUD pays the \$243,000. The OIG believes that, because this matter concerns HUD's contractual and/or equitable responsibility to make payments for the same services under different contracts, HUD should obtain a legal opinion on the issue before negotiations on the claim take place. (Report No. 95-AT-269-1008)



APPENDIX 1 - AUDIT REPORTS ISSUED

Internal Reports

Housing

95-AT-101-1001	Technical Assistance Grants to Support Public Housing Resident Management & Self-Employment Program, February 28, 1995.
95-FO-103-0001	Section 8 Budgeting and Accounting, March 27, 1995.
95-SF-111-0001	Multiregion Audit Section 236 Program, Excess Rental Income Collections, December 21, 1994.
95-SF-111-0002	Servicing of Multifamily Project, Montara Meadows, Housing Management Branch, Las Vegas Office, December 30, 1994.

CPD

95-HQ-156-0001	Youthbuild Program Competitive Funding Award Process, December 27, 1994.
95-SF-151-0003	Review of Participant Eligibility for Selected Homeless Programs, February 9, 1995.

Administration

95-DP-166-0002	HOME Cash and Management Information System, March 31, 1995.
95-IS-166-0001	Departmental Accounts Receivable Tracking/Collection System (D21), December 16, 1994. 1 Audit Related Memorandum

Miscellaneous

95-FO-171-0002	Fiscal Year 1994 Financial Statements - GNMA, March 29, 1995. 1 Audit Related Memorandum
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External Reports

Housing

95-AT-204-1002	Paducah KY Housing Authority, CIAP/CGP, October 25, 1994. Questioned: \$54,471; Unsupported: \$38,519.
92-AT-204-1005	South Carolina Regional Housing Authority No. 3, CIAP/CGP, Barnwell, SC, December 7, 1994. Questioned: \$5,325; Unsupported: \$5,325.
95-AT-203-1007	Mobile AL Housing Board, Section 8 Housing Activities, Mobile, AL, February 10, 1995. Questioned: \$42,203; Unsupported: \$42,203; Better Use: \$300,000.
95-BO-204-1001	Lowell MA Housing Comprehensive Program Force Account, October 31, 1994.
95-BO-212-1002	Brook Village North, Multifamily Project Operations, Nashua, NH, January 13, 1995.
95-CH-212-1001	Lafayette Towers, Multifamily Project Operations, Detroit, MI, November 29, 1994. Questioned: \$20547; Unsupported: \$770.
95-CH-212-1002	Bishop G. D. Moore Apartments, Multifamily Mortgagor Operations, Highland Park MI, February 27, 1995. Questioned: \$126,307; Unsupported \$63,974.
95-DE-207-1001	Winnebago NE Housing Authority, Management of Cash Assets, March 27, 1995.
95-DE-207-1002	Turtle Mountain Housing Authority, Management Cash Assets, Belcourt, ND, March 31, 1995.
95-FW-214-1001	Pioneer Management Company, Inc., Multifamily Management Agent, Dallas, TX, November 14, 1994. Questioned: \$295,617; Unsupported: \$26,996.
95-FW-201-1005	San Antonio TX Housing Authority, Comprehensive Grant and Comprehensive Improvement

External Reports

	Assistance Program, January 30, 1995. Questioned: \$1,086,708; Unsupported: \$408,074.
95-NY-212-0001	1199 Housing Corporation - Multifamily Mortgagor Operations, New York, NY, January 24, 1995. Questioned: \$259,893; Unsupported: \$259,893.
95-NY-214-1002	Buffalo Housing Associates, Inc. - Multifamily Project Operations, Buffalo, NY, March 31, 1995. Questioned: \$46,020.
95-PH-212-1002	Oakmeade Apartments, Multifamily Mortgagor Operations, Highland Springs, VA, December 14, 1994. Questioned: \$265,749; Unsupported: \$106,573.
95-PH-204-1003	Fayette County Housing Authority, Management Operations, Uniontown, PA, February 8, 1995. Questioned: \$866,951; Unsupported: \$832,674.
95-PH-212-1004	Abbottsford Homes, Tenant Management Corporation, Philadelphia, PA, March 2, 1995. Questioned: \$206,399; Unsupported: \$142,788.
95-PH-212-1005	Country Club Apartments, Multifamily Mortgagor Operations, Richmond, VA, March 27, 1995. Questioned: \$334,050; Unsupported: \$15,060.
95-PH-212-1006	St. James Terrace Apartments, Multifamily Mortgagor Operations, Baltimore, MD, March 30, 1995. Questioned: \$47,996.
95-SF-212-1002	Montara Meadows, Multifamily Mortgagor Operations, Las Vegas, NV, December 21, 1994. Questioned: \$416,060.
95-SF-214-1003	Alliance Housing Management, Inc., Use of Identity-of-Interest Vendors, Los Angeles, CA, December 30, 1994. Questioned: \$65,832; Unsupported: \$45,000.
95-SF-214-1004	Barker Management, Inc., Use of Identity-of-Interest Vendors, Anaheim, CA, January 26, 1995. Questioned: \$14,066.
95-SF-209-1005	North Las Vegas NV Housing Authority, Limited Review of Comprehensive Grant and CIAP, January 26, 1995. Questioned: \$138,197.
	28 Audit Related Memoranda, Total Questioned: \$1,391,419; Unsupported: \$159,744; Better Use: \$467,830.

CPD

95-AT-256-1001	Tampa FL, Hope 3 Implementation Grant, October 19, 1994. Questioned: \$50,000; Unsupported: \$50,000.
95-AT-241-1003	Metropolitan Dade County FL, CDBG Program, November 2, 1994. Questioned: \$4,053,038; Unsupported: \$1,053,797.
95-AT-256-1004	Neighborhood Services Inc., HOPE 3 Implementation Grant, Birmingham, AL, December 5, 1994. Questioned: \$23,154; Unsupported: \$5,894; Better Use: \$40,351.
95-FW-256-1002	Choctaw Nation Housing Authority, HOPE 3 Implementation Program, Hugo, OK, December 9, 1994. Questioned: \$25,584; Unsupported: \$25,584.
95-FW-241-1003	Albuquerque NM, CDBG Program, Albuquerque, NM, December 15, 1994. Questioned: \$520,933.
95-FW-255-1004	Oklahoma Department of Commerce, HOME Program, January 31, 1995.
95-FW-255-1007	New Orleans LA, HOME Investment Partnerships Program, March 24, 1995. Questioned: \$6,602,951; Unsupported: \$6,322,800.
95-PH-255-1001	Scranton PA HOME Program, October 27, 1994.
95-PH-241-1007	Philadelphia PA, Housing Development Corporation, CDBG and HOME Program, March 30, 1995.
95-SF-256-1001	Human Action for Chandler AZ, HOPE 3, Implementation Grant Program, October 12, 1994. Questioned: \$185,292; Unsupported: \$183,936.
95-SF-256-1006	Phoenix AZ, HOPE 3 Implementation Grant, March 30, 1995. Questioned: \$124,682; Unsupported: \$124,682; Better Use: \$1,153,922.
	3 Audit Related Memoranda

Administration

95-AT-269-1006	Intown Properties, Inc., Evaluation of Contractor's Request for Payment \$375,942, Atlanta GA,
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External Reports

December 20, 1994.

95-AT-269-1008

Intown Properties, Inc., Evaluation of Termination Claims for California REAM Services, Atlanta GA, March 24, 1995.

95-FW-261-1006

Wells Fargo Security Guard Services, Contract Price Proposal Evaluation, Dallas TX, February 27, 1995.

15 Audit Reports issued by other Federal Auditors. Questioned: \$15,705.

TABLE A
AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH
NO MANAGEMENT DECISION AT 3/31/95
 *Significant Audit Reports Described in Previous Semiannual Reports

APPENDIX 2

Report Number & Title	Reason for Lack of Management Decision	Issue Date/ Target for Management Decision
*93HQ1001. Scranton, PA UDAG and CDBG Programs.	Management decisions made on 26 of 42 recommendations. For the remaining 16 recommendations, management decisions on 10 were reached after the period, 5 recommendations are still being discussed with management, and 1 recommendation is at an impasse and will be referred to the Deputy Secretary for decision.	03/31/93/ 06/30/95
*93AT1018. Municipality of Aguadilla, PR CDBG Program.	Management decisions made on 24 of 25 recommendations. The remaining recommendation was transferred to Headquarters in March 1994. CPD staff is still reviewing the matter.	06/08/93/ 06/30/95
*93HQ0015. Multiregion Audit of Large Troubled PHAs, Report on Performance and Status.	Management decisions made on 11 of 16 recommendations. PIH responded to the recommendations in March 1995. The proposed actions are being evaluated as part of a current survey of Troubled PHAs and Distressed Developments.	09/24/93/ 06/30/95
*94AT1012. Atlanta, GA Housing Authority, Management Operations.	Management decisions made on 23 of 24 recommendations. Field and Headquarters program staff are discussing the necessary actions for the remaining recommendation. The OIG anticipates that referral of the matter to Headquarters will be necessary.	03/11/94/ 06/30/95
*94PH1008. Logan Assistance Corporation, HUD-Funded Property Acquisition and Relocation Programs, Philadelphia, PA .	Management decisions made on 12 of 13 recommendations. The remaining recommendation is in dispute and will be referred to the Assistant Secretary for CPD.	03/25/94/ 06/30/95
95NY1004. National Development Council Consulting Contracts With CDBG Recipients and Cooperative Agreement With HUD, New York, NY.	While management and the OIG agree on the necessary actions to be taken, management decisions have not been reached on the 5 reported recommendations. Management is currently evaluating additional information provided by the auditee and needs to provide additional information to the OIG for evaluation prior to management decision.	03/28/94/ 06/30/95
94PH1009. Timberwoods Mutual Homes, Inc. Multifamily Mortgagor Operations, Newport News, VA.	Management decisions made on 5 of the 14 recommendations. The auditee has been unable to justify its actions regarding 9 recommendations that concern validity of costs, and HUD management has not established target dates for accomplishing corrective actions.	03/31/94/ 06/30/95
*94FW1005. New Orleans, LA Housing Authority, Public Housing Operations.	Management decisions made on 1 of 23 recommendations. Management decisions proposed for 22 recommendations have been rejected by the OIG as being unresponsive. The OIG is currently working with program staff to reach management decisions.	06/29/94/ 06/30/95
*94FO0003. Audit of FY 1993 HUD Consolidated Financial Statements.	Management's initial response in March 1995 resulted in management decisions for 3 of 6 recommendations. OIG disagreed with the proposed management decisions for the remaining 3 recommendations.	06/30/94/ 06/30/95

External Reports

Report Number & Title	Reason for Lack of Management Decision	Issue Date/ Target for Management Decision
94AO1810. Village Green Mutual Homes, Inc., Cooperative Management Operations, Landover, MD.	Management has not been responsive to the recommendations. The initial response to the audit is expected in April 1995.	07/26/94/ 06/30/95
*94PH1017. LCL Management Company, Multifamily Management Agent, Parsippany, NJ.	Management provided their initial response to the recommendation in April 1995. OIG is currently working with the program office to reach management decisions.	09/26/94/ 07/30/95

TABLE B
SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS
WHERE FINAL ACTION HAS NOT BEEN COMPLETED AS OF 3/31/95

APPENDIX 2

Report Number	Report Title	Issue	Decision	Final Action
83CH1051	Detroit MI Housing Department, Public Housing Agency Activities	08/26/83	11/15/84	Note 1
83FW1017	East Baton Rouge LA Parish Housing Authority, Low -rent Housing and Section 8 Existing Programs	06/29/88	03/21/89	10/01/95
89SF1004	Las Vegas NV Housing Authority, Low Income Housing Program	01/20/89	07/18/89	Note 1
90AT1008	Atlanta GA, Community Development Block Grant Program, Use of Program Income	03/09/90	03/30/93	Note 1
90PH1014	Delaware County CDBG Program, Partnership for Economic Development and Other Selected Areas	06/12/90	11/01/90	Note 1
91TS0001	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	10/01/91	Note 1
91TS0006	Multiregion Audit of Interim Financing (Floats)	01/17/91	06/07/91	06/30/95
91PH1005	Pittsburgh Housing Authority, Comprehensive Improvement Assistance Program	03/21/91	09/20/91	Note 1
91TS0014	Multiregion Audit of the Approval and Monitoring of Management Agents of Multifamily Projects	04/30/91	11/06/92	Note 1
92KC1801	St. Louis MO Community Development Agency, Purchase of Land in St. Louis Place Neighborhood	10/22/91	03/12/92	Note 1
92CH1010	Detroit Housing Department, Section 8 Existing Housing Certificate, Voucher, and Mod Rehab Program	01/30/92	09/29/94	09/29/95
92PH1003	Baltimore MD, Community Development Block Grant Program	03/04/92	06/23/92	Note 1
92TS0007	Audit of Fiscal Year 1991 Financial Statements, Federal Housing Administration	03/27/92	09/29/92	12/31/95
92TS0009	Multiregion Audit, Special Economic Development Activities	04/29/92	04/22/94	01/31/96
92TS0011	Audit of Fiscal Year 1991 HUD Consolidated Financial Statements	06/30/92	09/30/94	09/30/95
92PH1009	Huntington WV, Community Development Block Grant Program	07/10/92	11/07/92	Note 1
92TS0014	Multiregion Review of the Controls Over the Preparation and Use of Grantee Performance Reports	07/30/92	03/21/95	01/31/96
92SF1009	San Francisco Housing Authority, Low Income Public Housing Program	09/10/92	01/08/93	Note 1
92PH1015	District of Columbia Department of Public and Assisted Housing, Management and Selected Development	09/30/92	03/29/93	Note 1
93HQ0002	Multiregion Audit of PHAs' Internal Controls Over the Handling of Cash and Other Monetary Assets	10/16/92	09/23/93	Note 1
93HQ0004	Interim Audit of Bond Refundings of Section 8 Projects	10/30/92	10/26/93	Note 1
93CH1003	Cuyahoga Metropolitan Housing Authority, Low Income Housing Program	11/17/92	04/05/93	12/31/98
93CH1006	North Chicago Housing Authority, Safeguarding Monetary Assets and Inventory	12/10/92	06/02/93	Note 1
93CH1007	Lucas Metropolitan Housing Authority, Low Income Housing Program	12/29/92	04/05/93	Note 1
93NY1002	New York Department of Housing Preservation and Development, Limited Review of CDBG Program	01/29/93	07/06/93	06/30/95
93HQ0006	Multiregion Limited Review of the Public Housing Management Assessment Program	02/04/93	09/24/93	Note 1
93AO1003	District of Columbia Department of Human Services, Single Family Homeless Initiative	03/03/93	07/26/93	Note 1
93HQ0005	Limited Review of HUD's Management and Control of Staff Resources	03/08/93	09/30/93	Note 1
93PH1004	Annapolis Housing Authority, Low Income Housing Program	03/23/93	09/10/93	Note 1
93FO0002	Audit of Government National Mortgage Association's Fiscal Year 1992 Financial Statements	03/29/93	01/11/94	Note 1
93HQ1001	Scranton Urban Development Action Grant and Community Development Block Grant Programs	03/31/93	Note 3	
93BO1005	Cooperative of Charlesnewtown, Inc., Section 8 Program	04/07/93	10/18/93	Note 1
93FO0003	Audit of Federal Housing Administration's Fiscal Year 1992 Financial Statements	04/30/93	03/31/94	12/31/98
93HQ0012	Multiregion Audit of the Direct Endorsement Program	04/30/93	09/23/93	Note 1
93CH1021	Aurora Housing Authority, Low-Income Housing Program	05/26/93	09/28/93	Note 1
93CH1022	The Meadows, Retirement Service Center	05/27/93	09/28/93	Note 1

Report Number	Report Title	Issue	Decision	Final Action
93AT1018	Municipality of Aguadilla, Puerto Rico, Community Development Block Grant Program	06/08/93	Note 3	
93FO0004	Audit of HUD's Fiscal Year 1992 Consolidated Financial Statements	06/30/93	03/31/94	03/30/98
93PH1008	District of Columbia Housing Finance Agency	07/19/93	12/20/93	Note 1
93CH1026	Yellowbird Limited, Multifamily Mortgagor Operations	08/05/93	02/01/94	Note 1
93HQ1006	Retirement Housing Foundation, Inc., Multifamily Management Agent	08/17/93	03/31/94	Note 1
93SF1012	Los Angeles Community Development Block Grant Program	09/17/93	09/30/94	Note 2
93BO1009	Lambert Park Apartments, Multifamily Project	09/22/93	03/11/94	Note 1
93SF1013	Santa Clara County Housing Authority, Section 8 Housing Program	09/22/93	01/27/94	Note 1
93HQ0015	Multiregion Audit of Large Troubled PHAs, Report on Performance and Status	09/24/93	Note 3	
93SF1017	Richmond Housing Authority, Comprehensive Improvement Assistance Program	09/28/93	09/26/94	09/15/95
93HQ0017	Single Family Homeless Initiative	09/30/93	03/29/94	Note 1
93HQ0018	Multiregion Audit of Delegated Processing Program	09/30/93	02/07/94	Note 1
94AT1002	City of Miami Emergency Shelter Grant Program	10/18/93	04/18/94	04/17/95
94CH1004	Michigan State Housing Development Authority, Section 8 Existing and Housing Vouch Programs	11/10/93	04/18/94	Note 1
94AT0001	Report of the Allocation and Award of Home Program Funding	12/27/93	09/01/94	06/30/95
94CH1010	Cincinnati Community Development Block Grant Program	12/30/93	03/30/94	Note 1
94AT1008	Progress Point, Inc dba Bright Beginnings, Supportive Housing Demonstration Program	01/14/94	07/07/94	07/06/95
94CH1013	Chicago Housing Authority, Maintenance Operations	01/14/94	07/28/94	03/31/99
94PH1007	Washington Capital Associates, HUD-Approved Coinsurance Lender	02/16/94	09/30/94	Note 2
94FW1004	Austin Department of Planning and Development, Community Development Block Grant Program	02/24/94	08/12/94	07/31/95
94DE0001	Office of Housing Deficiency Judgments Program	02/25/94	05/27/94	Note 2
94CH1016	River Rouge Housing Commission, Low Income Housing Program	03/07/94	07/15/94	07/15/95
94AT1012	Housing Authority of the City of Atlanta, Public Housing Management Operations	03/11/94	Note 3	
94KC1003	Maplewood Loop Apartments, Multifamily Mortgagor Operations	03/14/94	07/13/94	06/30/95
94PH1008	Logan Assistance Corp., HUD-Funded Property Acquisition and Relocation Programs	03/25/94	Note 3	
94SF1006	Westwood I Apartments, Multifamily Project Operations	03/31/94	05/26/94	01/01/96
94AT1015	Hospital Hermanos Melendez Inc., Mortgagor Operations	04/15/94	09/21/94	10/05/95
94AT1017	North Carolina Housing Finance Agency, Section 8, Hope 3 and Homeless Programs	04/28/94	03/31/95	08/30/96
94PH1010	Pennsylvania Department of Community Affairs, Permanent Housing for Handicapped Homeless Persons	05/11/94	03/29/95	04/30/95
94CH1024	Saginaw MI, CDBG Program, Special Economic Development Activities	05/25/94	09/15/94	09/15/95
94FO0002	Audit of Fiscal Year 1993 Financial Statements - Federal Housing Administration	06/08/94	09/12/94	Note 2
94FW1005	New Orleans Housing Authority, Public Housing Operations	06/29/94	Note 3	
94CH1028	Columbus Housing Partnership, Inc., Hope 3 Implementation Grant	06/30/94	11/03/94	09/30/95
94FO0003	Audit of Fiscal Year 1993 HUD Consolidated Financial Statements	06/30/94	Note 3	
94CH1031	Hartman and Tyner, Inc., Multifamily Management Agency	07/08/94	11/23/94	07/01/95
94SF1008	San Bernardino County, CDBG Program	07/13/94	11/16/94	10/31/96
94BO1009	TFG Management Company, Inc., Multifamily Management Agent	07/25/94	11/02/94	11/01/96
94AT1025	CARP of GA ,Inc., Supportive Housing Demonstration Program and Single Family Homeless Initiative Program	09/08/94	03/10/95	03/10/96
94PH1016	Baltimore Housing Authority, Public Housing Activities	09/23/94	03/01/95	12/31/95

Report Number	Report Title	Issue	Decision	Final Action
94PH1017	LCL Management Company, Multifamily Management Agent	09/26/94	Note 4	
94AT1026	Puerto Rico Department of Housing, Section 8 Program	09/27/94	03/31/95	03/30/96

AUDIT EXCLUDED:

- 18 audits under repayment plans
- 49 audits under formal judicial review, investigation, or legislative solution

NOTES:

- 1 Management did not meet the target date. Management decision is over 1 year old.
- 2 Management did not meet the target date. Management decision is under 1 year old.
- 3 No management decision. Decision expected by June 1995.
- 4 No management decision. Decision expected by July 1995.

TABLE C
INSPECTOR GENERAL ISSUED REPORTS WITH
QUESTIONED AND UNSUPPORTED COSTS AT 3/31/95
(DOLLARS IN THOUSANDS)

APPENDIX 2

REPORTS	Number of Audit Reports	Questioned Costs	Unsupported Costs
A1 For which no management decision had been made by the commencement of the reporting period	36	\$33,277	\$22,240
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	17	27,854	9,858
A3 For which additional costs were added to reports in beginning inventory	-	504	105
A4 For which costs were added to non-cost reports	2	226	4
B1 Which were issued during the reporting period	32	17,285	9,914
B2 Which were reopened during the reporting period	-	-	-
Subtotals (A+B)	87	\$79,146	\$42,121
C For which a management decision was made during the reporting period	40 ¹	14,574	8,900
(1) Dollar value of disallowed costs: • Due HUD • Due Program Participants	15 ² 23	3,492 6,607	553 4,692
(2) Dollar value of costs not disallowed	14 ³	4,475	3,655
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	17	27,934	9,885
E For which no management decision had been made by the end of the reporting period	30 (87) ⁴	\$36,638 (23,206)	\$23,336 (14,998)

- ¹ 3 audit reports also contain recommendations that funds be put to better use.
² 1 audit report also contains recommendations with funds due program participants.
³ 11 audit reports also contain recommendations with funds agreed to by management.
⁴ The figures in brackets represent data at the recommendation level as compared to the report level.
See Table D for explanation.

TABLE D
INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS
THAT FUNDS BE PUT TO BETTER USE
AT 3/31/95
(DOLLARS IN THOUSANDS)

Reports		Number of Audit Reports	Dollar Value
A1	For which no management decision had been made by the commencement of the reporting period	4	\$1,681
A2	For which litigation, legislation or investigation was pending at the commencement of the reporting period	5	1,915
A3	For which additional costs were added to reports in beginning inventory	-	0
A4	For which costs were added to non-cost reports	3	175
B1	Which were issued during the reporting period	4	1,962
B2	Which were reopened during the reporting period	0	0
Subtotals (A + B)		16	\$5,733
C	For which a management decision was made during the reporting period	7 ¹	1,982
(1)	Dollar value of recommendations that were agreed to by management <ul style="list-style-type: none"> • Due HUD • Due Program Participants 	5 0	785 0
(2)	Dollar value of recommendations that were not agreed to by management	2	1,197
D	For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	4	1,888
E	For which no management decision had been made by the end of the reporting period	5 (3) ²	\$1,863 (1,526)

¹ 3 audit reports also contain recommendations with questioned costs.

² The figures in brackets represent data at the recommendation level as compared to the report level. See explanation below.

EXPLANATIONS OF TABLES C AND D

The Inspector General (IG) Amendments of 1988 require Inspectors General and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the "report" level rather than at the individual audit "recommendation" level results in misleading reporting of cost data. Under the Act, an audit "report" does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the "report" based rather than the "recommendation" based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management's decision or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current "all or nothing" reporting format does not take recognition of their efforts.

The closing inventory for items with no management decision on Tables C and D (Line E) reflects figures at the report level as well as the recommendation level.

APPENDIX 3

PROFILE OF PERFORMANCE OCTOBER 1, 1994 THROUGH MARCH 31, 1995

	AUDIT	INVESTIGATION	TOTAL
Cash Recoveries	\$12,819,096	\$2,005,182	\$14,824,278
Other Recoveries/Seizures ¹		\$3,289,166	\$3,289,166
Court Ordered Restitution		\$3,474,058	\$3,474,058
PFCRA Recoveries		\$79,603	\$79,603
Total Cash Recoveries	\$12,819,096	\$6,315,451	\$19,134,547
Cost Efficiencies	\$1,354,910		\$1,354,910
Commitments to Recover Funds	\$12,390,816		\$12,390,816
Cost Efficiencies Sustained	\$682,620		\$682,620
Fines Levied		42,120	42,120
Search Warrants/Arrests		2,170	2,170
Indictments		577	577 ²
Convictions		125	125 ²
Total Years Suspended Sentences/Probation		5/266	5/266
Total Years Prison Sentences		162	162
Administrative Actions Against Persons/Firms Doing Business with HUD	8	67	75
Subpoenas Served	19	52	71

¹ Does not include 181 weapons seized under Operation Safe Home.

² 459 Indictments and 42 convictions related to Operation Safe Home.